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ABSTRACT

Focusing on obtaining and using consumer credit, this document is one in a series of three consumer education modules developed to educate individual adult consumers in important areas of consumer affairs. An introductory section provides an overview of the module contents, suggested approaches for using the module, and suggestions for working with adults. Preceding the conceptual outline of the learning module is a complete list of objectives and competencies covered by the module. The conceptual outline includes the objectives, competencies, and supplemental narrative related to each of the following units of study: reasons for using credit; consequences of credit usage; types and sources of credit; credit and your credit rating; and knowing your rights and responsibilities concerning credit. The leader's activities are described for each of the five units and include the following information: section of module; type of activity, time required, and description of activity. A glossary of terms and a resource list are also included. Finally, an evaluation plan is described, and transparency masters for each unit are appended. (A related manual on financial counseling is also available, CE 016 110). (BM)

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ED159323

OBTAINING AND USING CONSUMER CREDIT

A LEARNING MODULE

Developed By

E. Thomas Garman

and

Sandra L. Jeffrey

BEST COPY AVAILABLE

This educational module has been submitted to the Virginia State Bar for review. The Bar recommends that this "significant consumer education resource be regarded as educational information not to be applied to a particular situation. If you have a legal problem in this subject area, it is suggested that you consult an attorney who can tailor advice to your specific legal concern."

CE 016 087

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Purpose of the Module

This series of Consumer Education Modules has been developed in an effort to educate individual adult consumers in what have been determined to be the most important general areas of consumer affairs education. Community leaders, extension personnel, educators, financial counselors, and people in business are encouraged to use these modules in conducting group sessions for adults interested in developing more competence in various areas of consumer education.

Each module is self-contained in that someone with no prior experience in teaching, coordinating, or directing learning can be successful in conducting a group consumer learning session.

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Introduction

Many Americans use credit in one form or another and understand, basically, what consumer credit is all about. We are also familiar with the term, credit. Credit is a trust that goods and services received now will be paid for in the future. The responsible use of credit, however, is an involved procedure with many important aspects to be considered. Everyone should know more about this service. We should know how to obtain credit and how to use it wisely.

This module contains two suggested approaches to help you, as the leader, help others become more responsible consumers in the area of consumer credit. Both an overview approach and an in-depth approach are presented for your use.

Contents of the Module

This module, entitled, "Obtaining and Using Consumer Credit," contains the following components or areas of understanding:

I. REASONS FOR USING CREDIT
II. CONSEQUENCES OF CREDIT USAGE
III. TYPES AND SOURCES OF CREDIT
IV. CREDIT AND YOUR CREDIT RATING
V. KNOWING YOUR RIGHTS AND RESPONSIBILITIES CONCERNING CREDIT

Each component includes an overall objective, further specific objectives, competencies which, hopefully, the learner will have developed upon completion of the subpart, a narrative-form outline containing the information to be covered, leader activities, and transparency masters (located in the Appendix) which can be used on an optional basis to implement the suggested activities. Much of this information is included for your benefit and will not be seen by the learners. You will want to read and examine the entire module carefully before presenting it to the learners. This will help you to understand the information in the module more fully, and will allow you to make some tenative choices about which activities to use in the learning situation.

Other features of the module are the glossary, sources of further reference, an evaluation device, a form for you to return concerning your reactions to your use of this module, and an appendix.

Overview Approaches

There are two overview approaches included as suggested presentations for one session which covers all of the material in the module in a 50 minute time period. These could be used at dinner meetings or luncheons; as a program for a men's or women's club meeting; as a program for the elderly; or any other meeting of adults who might be interested in learning to improve their use of consumer credit. The

first of these presentations is a "Leader/Lecture-Oriented Presentation". In this overview, you as the leader would do all of the talking and explaining unless, of course, there are questions. The second of these presentations is a "Discussion-Oriented Presentation". In this overview, you as the leader would explain some of the information and then encourage the group to contribute by asking them questions, having them draw conclusions about a case study, and so forth. You should review both of these presentations thoroughly before deciding which overview approach you would feel more comfortable using or which would be more appropriate for your group of adults. It may be that you will present the overview to a group of adults whose interest in the area of consumer credit will be increased by your presentation. If they express a desire to learn more about consumer credit, the in-depth approach can then be used, with the same group, to cover any particular area of interest, or to cover all five components.

In-depth Approach

The in-depth approach is for presentations which cover all of the material in the module in five sessions of fifty minutes each. (Session #1 would cover I and II, Session #2 would cover III, Session #3 would cover IV, and Sessions #4 and #5 would deal with V.) The activities on the Leader Activities page for this approach are more specific and cover the material on the preceding "Conceptual Outline" page in more detail. The leader activities for each unit are suggestions. Those which are strongly "Recommended" and most vital to accomplishing the objectives are labeled, "R". Those activities which are "Suggested" and may be necessary for adding depth to the learning are labeled,"S". Those which are "Optional" and can be done if time permits, are labeled, "O".

You should select what you believe to be the most suitable activities for accomplishing each objective with your particular group of adults. This may depend upon the people in your group, the facilities and equipment available to you, the time you have to present the material, and the degree to which you feel comfortable using the various methods of presentation. Emphasize first, those activities labeled "R", next; those labeled "S"; and finally, if time permits, and should you decide it would be beneficial, those labeled "O". It is not advisable to use activities out of sequence unless, of course, you have determined that your adults already possess some of the more important competencies.

Wherever an asterisk (*) appears, there is a transparency master, which can be used for that particular activity, located in the Appendix. You may prefer to make and distribute handouts of the information, use a flip chart, write the information on a chalkboard, or use any other activity which will help to accomplish the stated objectives. Each activity is stated in such a way that you can use whatever method of presentation you are most comfortable with and whichever you feel will be most effective for your particular group

of learners. Imagination and creativity in the method of presentation are encouraged.

Suggested Procedure for Use of Each Component of the Module

1. First of all, inform the group of the major and specific objectives for the unit. This can be done either by reading them to the group or by showing the component transparency. At this time, the first activity should begin. Activity Number One in each component is especially designed to serve as an oral pretest for the adults in your group. This is a unique feature of these Consumer Education Modules. This activity consists of a list of questions which you can ask to begin the discussion, to introduce the unit, to stimulate thought, and very importantly, to determine to what degree the learners in your group already have an understanding of the information. If, after presenting the first two or three questions, you have succeeded in eliciting a favorable response from the group, you may wish to proceed immediately to stating the generalization. This method of transition to the second activity is an approach that will help you save time.

2. Proceed with the second leader activity which you have determined will be most feasible for your group, the setting, and the time available. After each activity, it is recommended that you ask if there are any questions or if anything is unclear. Once the first component is completed, the same procedure should be used for each successive subpart of the module until all are completed. You will notice that on page 66, there is a section which lists a variety of references. You as the leader can use these for additional background information on the topic. One or more of these references should be available in your local school, public, or college library. If not, you may wish to order several of these for your use.

3. Finally, after all of the units have been completed, some form of evaluation should be conducted. Since you are working with adults who are most likely in a volunteer situation, there is no formal posttest for them to complete. Ideally, they should have been evaluating themselves throughout the session(s) in terms of their individual objectives. Provided in the module is an evaluation device which can give you some indication as to what the learners actually did gain from the session(s) and how effective your methods of presentation were so that you may alter them, if necessary, or make note of those activities which seemed to be especially effective.

Suggestions for Working with Adults

Since you will be working with adults, it would be helpful to identify some ideas to keep in mind about adult learning situations. First, the learning setting should be both attractive and informal. This should be a somewhat different atmosphere than that of an actual classroom learning situation. The informality is especially important because the leader needs to establish and maintain a good rapport with

the adult learners, in addition to demonstrating respect for them as individuals. Second, by trying, to some extent to determine the life style and spending patterns of those present, you can better assess the future educational needs of the group. This will help you identify the direction, scope, or concentration of your consumer affairs education presentations. Third, encourage the learners to self-evaluate their own private consumer behavior throughout the session(s). Suggest that they ask questions when things are unclear. Further, you might recommend that they contribute related ideas and experiences that "have worked for them" when they feel it is appropriate, so that the whole group might benefit from learning about these experiences. The learner's extent of knowledge and interest in the area to be examined should be the main criteria for you to use in determining exactly what and how much of the area will be learned. It is your job to see that the adult learner "gets what he wants" in the learning sessions. Remember to keep these ideas in mind when working with adults; respect the learner at all times; try not to force your opinion on others; take breaks from time to time rather than meeting for a long, extended time span; and, help give them a feeling of worth.

An indication of your success may be your adults requesting a follow-up session on the topics covered. Our suggestion for this presentation is to moderate a session with one or more guest speakers. This might serve as a sixth indepth session or as a follow-up to one of the overview presentations.

We hope that the suggestions for using this module will be useful to you and that the purposes of the module will be achieved with your adults. In all of the modules, the major objective is to educate individual adults in consumer affairs education. We hope and trust that the modular approach used here will help you in this effort.

MAJOR AND SPECIFIC OBJECTIVES:

OBTAINING AND USING CREDIT

I. REASONS FOR USING CREDIT
Major Objective: To explain reasons for the use of credit.
Specific Objectives: Cite the major reasons for using credit and give examples of each reason.

II. CONSEQUENCES OF CREDIT USAGE
Major Objective: To make predictions about the consequences of using credit.
Specific Objectives: List several advantages of using credit, and give examples of each.
List several disadvantages of using credit, and give examples of each.

III. TYPES AND SOURCES OF CREDIT
Major Objective: To describe various types and sources of consumer credit.
Specific Objectives: Indicate the differences between installment and non-installment credit plans.
Differentiate among the sources or places to obtain credit.

IV. CREDIT AND YOUR CREDIT RATING
Major Objective: To summarize factors concerning obtaining credit and a credit rating.
Specific Objectives: Relate the factors influencing one's ability to obtain credit.
Cite examples of different processes used and information needed in obtaining credit.
Identify factors influencing one's credit rating.
Become aware of the importance of maintaining a good credit rating.

V. KNOWING YOUR RIGHTS AND RESPONSIBILITIES CONCERNING CREDIT
Major Objective: To summarize various consumer rights and responsibilities concerning credit.
Specific Objectives: List the basic consumer rights about credit and cite examples of legislation and agencies which help guarantee each of those consumer credit rights.
Identify general consumer credit responsibilities and describe the fundamental concepts behind each.

COMPETENCIES:

OBTAINING AND USING CREDIT

I. REASONS FOR USING CREDIT

Competencies:
- Cite three of the five major reasons for using credit.
- Give two examples of each major reason for using credit.

II. CONSEQUENCES OF CREDIT USAGE

Competencies:
- State five of the eight advantages of using credit.
- Give two reasons why each of the five advantages of using credit is considered an advantage.
- Name four of the seven disadvantages of using credit.
- Give two reasons why each of the four disadvantages of using credit is considered a disadvantage.

III. TYPES AND SOURCES OF CREDIT

Competencies:
- List four of the seven characteristics of installment credit.
- State the two characteristics of non-installment credit.
- Explain two of the three types of non-installment credit.
- List eight of the ten sources of or places to obtain credit.
- Describe four of the ten sources of credit as to the type of customer served, interest rates, special features, and other requirements.
- Determine the most suitable sources of credit for the following, and give reasons to support each choice: buying a new car, financing a home, a quick, small loan, sudden health emergency, taking advantage of a sale.

IV. CREDIT AND YOUR CREDIT RATING

Competencies:
- List and explain the five major factors influencing one's ability to obtain credit.
- Explain the purpose of a credit bureau.
- Explain four of the five factors which influence one's credit rating.
- Describe two of the possible procedures used to obtain credit information.
- Name four of the seven types of information usually asked for on credit applications.
- State the two major reasons for maintaining a good credit rating.

COMPETENCIES (CONTINUED)

V. KNOWING YOUR RIGHTS AND RESPONSIBILITIES CONCERNING CREDIT

Competencies:

- State the four basic consumer rights concerning credit.
- For each of the basic consumer credit rights, give two examples of legislation, agencies, or other information further defining or guaranteeing that right.
- Briefly describe the effects of four of the five major legislative measures on credit rights.
- Identify two of the areas protected by the consumer's right to safety when using credit.
- Identify two Federal agencies with whom one may file consumer credit complaints or seek redress because of consumer credit problems.
- State the five major consumer responsibilities of credit usage.
- Be aware of factors considered when determining the true Annual Percentage Rate.
- Categorize six of the eleven sources of consumer credit into the three with the lowest true Annual Percentage Rate and the three with the highest true Annual Percentage Rate.
- Cite six of the fourteen things that should be included in a contract, before agreeing to sign the contract.
- Describe three ways to prevent overextension or misuse of consumer credit.
- Summarize one's responsibility to repay debts promptly and meet credit obligations.
- Identify the consequences of failing to meet financial obligations.
- Explain the importance of giving accurate information about one's self for applications, contracts, and other verbal or written agreements.

OVERVIEW APPROACHES

A. Leader/Lecture-Oriented Presentation (50 Minute Overview)

To the leader: The following lesson plan is a suggested approach for a 50-minute presentation covering the highlights of the entire consumer credit module. The first column, "Section of Module" indicates the part of the module to be covered. The "Time" column suggests how many minutes could be spent on that particular section in order to cover all of the material in 50 minutes. The "Preparation" column recommends procedures to help you prepare for the presentation of the material. The "Activity" column tells you what you should do with or for the group. It is important to remember that it will be very difficult to cover all of this material in just 50 minutes. For this reason, be especially careful not to exceed the time limit suggestions in the "Time" column unless you take equal time away from another part. Otherwise, you will not accomplish all of the goals for the session.

Section of Module	Time (Min.)	Preparation	Activity
Introduction	2	Refer to the "Purpose of the Module" which you read on page 3.	State that: "Consumer credit is a term we are all familiar with but which many of us would like to know more about. There are many aspects of credit to be considered, too. We will be taking a look at the reasons for using credit; consequences of using credit; credit and credit ratings; and, our consumer rights and responsibilities concerning credit. We should begin by defining credit as A TRUST THAT GOODS AND SERVICES RECEIVED NOW, WILL BE PAID FOR IN THE FUTURE." (Say this definition again.)
I Reasons for Using Credit	5	Review the objectives for section I on page 24, and examine the outline for this section on page 25.	State the 5 reasons for using credit which are on page 25. (You may want to explain each of these further by using the examples on page 25.)

Section of Module	Time (Min.)	Preparation	Activity
II Consequences of Credit Usage	7	Review the objectives for section II, on page 27. If you decide to use a transparency for this section, use the transparency master on page 76 to make the transparency. Otherwise, write the information from the transparency master on the chalkboard, use a flip chart, or, simply, state the information.	Show transparency A-1 on page 76, OR write the information on the board OR state the information concerning the consequences of using credit. (You may want to explain some of these further by using the examples on pages 28-29.
III Types and Sources of Credit	5	Review the objectives for section III, on page 31. Refer to the outline on page 32 for the explanation of the differences between the two types of credit. Decide which of the characteristics you will mention about each.	State that there are 2 basic types of credit: installment and non-installment. Explain the differences between the two.
	5	Decide whether you will show a transparency of the sources of credit or whether you will write the information on the chalkboard or use a flip chart or, simply, state the information. If you decide to use a transparency, use the transparency master on page 80 to make the transparency.	Show transparency A-2, on page 80, OR write the information on the chalkboard OR state the information about sources or places to obtain credit. (You may want to explain some of these further by using the descriptive information about each on pages 32, 33, and 34 of the outline.)

Section of Module	Time (Min.)	Preparation	Activity
IV Credit and Your Credit Rating	5	Review the objectives for section IV on page 36 and examine the outline on pages 37 and 38. Decide whether you will show a transparency or write the information on the chalkboard or use a flip chart or, simply, state the information. If you decide to use a transparency, use the transparency master on page 85 to make the transparency.	Show transparency A-3, on page 85, OR write the information on the chalkboard OR state the information about factors influencing one's ability to obtain credit. Explain each of these further, using the information on page 37.
	5	Be familiar with the information in parts A and B of the outline on pages 37 and 38. Use the transparency master on page 86 to make the transparency.	Explain what the credit bureau is. Describe the credit file and what information it includes. Show transparency IV, Activity 7, on page 86, of the sample credit application and point out how the information asked involves information about the factors influencing the ability to obtain credit. (Allow time for them to look over the transparency.)
V Knowing Your Rights and Responsibilities Concerning Credit	5	Review the objectives for section V, on page 40-41, and examine the outline on pages 42-49. Decide whether you will show transparencies or, simply, state the information. If you decide to use transparencies, use the transparency masters on pages 91, 92, 93, and 94 to make the transparencies. Decide what information you want to point out or emphasize about each of the consumer credit rights.	Show transparency Activity 3(a), (b), (c), and (d), on pages 91-94, one at a time. Briefly, describe each or point out some characteristics of each, OR, simply state the 4 major consumer credit rights. Explain what each right involves using the information on pages 42-46.

Section of Module	Time (Min.)	Preparation	Activity
	5	Refer to pages 46-49 of the outline and be familiar with the 5 major consumer credit responsibilities, especially the last 4. Decide whether you will show a transparency or write the information on the chalkboard, use a flip chart, or, simply, state the information. If you decide to use a transparency, use the transparency master on page 97 to make the transparency.	State the 5 major consumer credit responsibilities. Show transparency V, activity 7, on page 97, to show how to compare the costs of various sources of consumer credit. Briefly, state that there are things a consumer should be sure are included in a consumer credit contract before he signs it. Name these 14 things which are listed on pages 47-48.
	2	Refer to page 48 of the outline and decide which things from number 4 you want to mention.	State that it is important to keep accurate records to maintain a good credit rating and prevent overextension. Explain the two types of limits that can be set to help prevent overextension. Describe how to keep a credit file.
-	4	You may want to save this remaining time for questions and/or discussions.	Ask if anyone has any questions or comments concerning this information on consumer credit.

B. Discussion-Oriented Presentation (50 Minute Overview)

To the leader: This is a structured discussion approach for a 50-minute session covering the highlights of the entire consumer credit module. The first column, "Section of Module," indicates the part of the module to be covered. The "Time" column suggests how many minutes could be spent on that particular section in order to cover all of the material in 50 minutes. The "Preparation" column recommends procedures to help you prepare for the presentation. The "Activity" column suggests how you might lead a discussion on each topic. It is important to remember that it will be very difficult to cover all of this material in just 50 minutes. For this reason, be especially careful not to exceed the time limit suggestions in the "Time" column (unless you take equivalent time away from another part). Otherwise, you will not accomplish all of the goals for the session.

Section of Module	Time (Min.)	Preparation	Activity
Introduction	2	Refer to the "Purpose of the module" on page 3.	State that: "Consumer credit is a term we are all familiar with but which many of us would like to know more about. There are many aspects of credit to be considered, too. We will be taking a look at the reasons for using credit; the consequences of using credit; types and sources of credit; credit and your credit rating; and, our consumer rights and responsibilities concerning credit. We should begin by defining credit as A TRUST THAT GOODS AND SERVICES RECEIVED NOW, WILL BE PAID FOR IN THE FUTURE." (Say this definition again.)
I Reasons for Using Credit	5	Review the objectives for section I, page 24. Review the outline on page 25. Decide which of the questions from page 52 (or from those you can think of) you could ask in order to help the group give answers that would fall into the 5 categories.	Ask questions to elicit responses from the group about the reasons for using consumer credit. (If their answers or comments have not covered all 5 of the areas mentioned on page 25, state these other reasons.)

Section of Module	Time (Min.)	Preparation	Activity
I (Cont'd)		of reasons for using credit (which are on page 25.)	
II Consequences of Credit Usage	10	Review the objectives for section II, on page 27, and familiarize yourself with the following case study: Mr. and Mrs. B. Wise are shopping for a new refrigerator. Their old one needs major repairs, and they feel they would be better off, in the long run, to purchase a new model and have it delivered immediately. They find that the size and quality of new refrigerators cost more than they had expected. They have enough money in their savings account to cover the expense, but they hate to use it in case an emergency should arise. They decide to purchase the appliance using some form of credit. What are the advantages and disadvantages of the Wise's decision? Refer to the advantages and disadvantages listed on pages 28 and 29 to see how you could relate each to the Wise's situation.	Read the case study in the previous column, to the group. Ask the group to answer the question, "What are the advantages and disadvantages of the Wise's decision?" If their answers do not cover all of the advantages and disadvantages listed on pages 28 and 29, remind them of these other advantages and disadvantages, also.

Section of Module	Time (Min.)	Preparation	Activity
III Types and Sources of Credit	8	Review the objectives for section III, on page 31, and examine the outline on pages 32-34. Familiarize yourself with differences between the two types of consumer credit. Decide which sources of consumer credit you will want to describe briefly for the group (i.e. if they are not familiar with a particular source, this is one source you will want to explain to them, referring to pages 32-34.)	Explain the differences between installment and non-installment credit on page 32. Ask the group to help name the many sources of or places to obtain consumer credit. If they do not mention all the sources listed in part B of the outline (pages 32-34), remind them of these sources, also, and describe those sources which may be unfamiliar to them.
IV Credit and Your Credit Rating	8	Review the objectives for section IV, on page 36, and examine the outline on pages 37 and 38. Section 2, Information needed, under part C, on page 38, gives the usual information asked on a credit application. Use this and page 86 in the appendix to help you determine if the group's responses are correct.	State the 5 factors which influence one's ability to obtain credit. Briefly describe what is meant by each (page 37). Ask the group what questions a creditor could ask a person applying for credit, that would give the creditor information about these factors. Briefly, explain why a good credit rating is important (page 38).

Section of Module	Time (Min.)	Preparation	Activity
V Knowing Your Rights and Responsibilities Concerning Credit	12	Review the objectives for section V, on pages 40-41. Review the questions under activities on pages 60-61, and examine the outline on pages 42-49. Decide which of the questions from pages 60-61 or from those you can think of, that you may want to ask in order to help the group give answers that would be examples of a consumer's credit rights and responsibilities.	Ask questions to elicit responses from the group about their consumer credit rights and responsibilities. (If their answers or comments have not covered the various consumer credit rights and responsibilities mentioned on pages 42-49. state these other rights and responsibilities, too.)
	5	You may want to save this remaining time for questions and/or discussion.	Ask if anyone has any questions or comments concerning this information on consumer credit.

IN-DEPTH APPROACH

I. REASONS FOR USING CREDIT

OBJECTIVES:

I. REASONS FOR USING CREDIT

Major Objective:

To explain reasons for the use of credit.

Specific Objectives:

Cite the major reasons for using credit and give examples of each reason.

Learner Competencies:

Cite three of the five major reasons for using credit.

Give two examples of each major reason for using credit.

I. REASONS FOR USING CREDIT
(Conceptual Outline)

Reminder about outline: This is a conceptual outline in which both the major and minor ideas are presented in narrative form. For further explanation of the concepts, review one or more of the specific references noted on pages 66-70.

I. Five reasons for Using Credit

A. Emergencies creating a need for credit might include:
   1. Health and medical emergencies
   2. Auto accidents
   3. Funeral expenses
   4. Other

B. Household loans are sometimes needed for:
   1. Large appliances
   2. Furnishings for the home

C. Home improvements that are desired might include:
   1. Repairs - roof, furnace, etc.
   2. Additions - interior, exterior

D. Auto loans are usually necessary

E. Debt consolidation is sometimes needed

II. CONSEQUENCES OF CREDIT USAGE

OBJECTIVES

II. CONSEQUENCES OF CREDIT USAGE

Major Objective:

To make predictions about the consequences of using credit.

Specific Objectives:

List several advantages of using credit and give examples of each.

List several disadvantages of using credit and give examples of each.

Learner Competencies:

State five of the eight advantages of using credit.

Give two reasons why each of the five advantages of using credit is considered an advantage.

Name four of the seven disadvantages of using credit.

Give two reasons why each of the four disadvantages of using credit is considered a disadvantage.

II. CONSEQUENCES OF CREDIT USAGE
(Conceptual Outline)

Reminder about outline: This is a conceptual outline in which both the major and minor ideas are presented in narrative form. For further explanation of the concepts, review one or more of the specific references noted on pages 66-70.

II. Consequences of Credit Usage

A. Advantages

1. To improve one's general level of living - one's level of living is not restricted to the amount of cash on hand
2. To take advantage of sales
   a. Purchase goods during sales because of lower prices
   b. Save by using credit rather than paying with cash later when the price is higher
3. To purchase large items and use them while still paying for them
   a. Purchase according to personal and family needs - appliances, car, home furnishings
   b. Pay for large expenses in more affordable payments
4. To make purchases more conveniently
   a. Need not carry large amounts of cash
   b. Make returns more easily because a "cash refund" is not necessary
5. To manage overall expenditures more effectively
   a. Keep a record of purchase receipts for credit expenditures
   b. Make accurate predictions about future expenditures for the bills
   c. Make accurate estimates about general expenditures in the future for budgeting purposes
6. To establish a credit rating
   a. Obtain credit from available source
   b. Repay amount borrowed promptly
   c. Avoid misuse of credit
7. To beat inflation
   a. Buy at the current dollar value
   b. Repay at a future rate when value of dollar will go down because of inflated prices
8. To use it as a form of "savings"
   a. A washing machine purchased on installment credit is a type of "installment savings"
   b. Use of the good continues long after it is paid for
9. To keep savings in tact

B. Disadvantages

1. Future earnings are already committed to be spent

a. The credit purchases are paid for in the future
b. Future income is already obligated to spending done in the past

2. Provides a false sense of security
   a. Immediate possession of the goods falsely implies "full" ownership of them
   b. Easy to overestimate one's spending and repayment ability
   c. May encourage impulse buying
3. Decreases cash savings
   a. Cash savings may need to be used to repay creditors
   b. May be more difficult to provide for emergencies
4. Pay finance charges in addition to the cost of the product or service
   a. Regular interest is charged for the use of the money
   b. Increased finance charges are added if you are late in paying the bills
5. May lead to credit overextension or bankruptcy
   a. Credit purchases may be too extensive
   b. Temporary loss of income may result in one's inability to make credit payments
   c. May lose the merchandise through repossessment of the goods by the creditor
6. Misuse results in a poor credit rating
   a. Misuse is recorded by credit bureaus
   b. The credit rating follows you always
   c. You may be considered a "bad risk" in the future
7. Credit cards may be lost or stolen
   a. You may be liable for some of the charges if the loss is not reported to the proper agency
   b. Take the proper steps if any credit cards are lost

III. TYPES AND SOURCES OF CREDIT

OBJECTIVES

III. TYPES AND SOURCES OF CREDIT

Major Objective:

To describe various types and sources of consumer credit.

Specific Objectives:

Indicate the differences between installment and non-installment credit plans.

Differentiate among the sources or places to obtain credit.

Learner Competencies:

List four of the seven characteristics of installment credit.

State the two characteristics of non-installment credit.

Explain two of the three types of non-installment credit.

List eight of the ten sources of or places to obtain credit.

Describe four of the ten sources of credit as to the type of customer served, interest rates, special features, and other requirements.

Determine the most suitable sources of credit for the following, and give reasons to support each choice: buying a new car; financing a home; a quick, personal loan; sudden health emergency; taking advantage of a sale.

III. TYPES AND SOURCES OF CREDIT
(Conceptual Outline)

Reminder about outline: This is a conceptual outline in which both the major and minor ideas are presented in narrative form. For further explanation of the concepts, review one or more of the specific references noted on pages 66-70.

III. Types and Sources of Credit

A. Types of consumer credit

1. Installment
   a. Usually used for major purchases
   b. Repayment is over a series of months or years
   c. A specified amount of interest is added and must be repaid
   d. Each installment usually includes the finance charges
   e. Sometimes the total can be repaid before it is due in order to avoid some of the finance charges
   f. This type usually involves a written agreement
   g. This may require a trade-in or down payment
2. Non-installment
   a. Characteristics
      1. A single payment is made
      2. There are no fixed payments
   b. Types
      1. Service credit - the customer applies for the service and may have to pay a deposit (example--utility bills)
      2. Doctor's bills - these are usually paid in full when they are due
      3. Charge accounts - the credit customer may either pay the amount due in 30 days or pay a portion of the amount due within the first 30 days and the remainder later (Revolving charge).

B. Sources of or places to obtain credit
1. Commercial banks
   a. Collateral is often required
   b. Monthly repayments are usually required
   c. Low interest rates (10-14% A.P.R.) are charged
   d. Average loans are about $1,100
   e. Serve low and medium risk customers
   f. Service fee is usually charged for early repayment of the loan
   g. May discount the amount of the loan (deduct the interest amount before giving the amount of the loan to the customer)
   h. Character or signature loans are usually available
2. Credit Unions
   a. Membership is required in order to receive a loan
   b. Low interest rates (9-12% A.P.R. are charged)
   c. Character or signature loans are usually available

d. Payroll deductions are normally required
e. May have a limit on amounts that can be borrowed
f. Usually quick and easy service is available

3. Consumer finance companies
   a. Maximum amounts to borrow are limited
   b. Serve the highest risk customers
   c. Higher interest rates (14-36% A.P.R.) are charged
   d. A high degree of advertising and promotion is characteristic of this type
   e. Service fees, for early repayment, are usually charged
   f. Collateral is needed to insure the loan
4. Sales finance companies
   a. Lending is arranged through the retailer (usually done for automobiles)
   b. This is indirect borrowing in that it is not the retailer who provides the credit
   c. May serve the higher risk customers
   d. Higher interest rates (16-24% A.P.R.) are charged
   e. The newly purchased goods serve as collateral (new car)
   f. Service fees, for early repayment, are usually charged
5. Department stores
   a. Credit is available soon after the customer submits the application
   b. Revolving credit is available with the option of paying the amount due in full when the bill is received, or paying the full amount in installments(usually 18% A.P.R.)
   c. An installment credit plan is usually available(12-16% A.P.R.)
   d. Add-on option is usually available on the installment plans
6. Credit cards - the customer's credit will be honored up to a specified amount
   a. Retail store credit cards
      1. Issued by department stores and oil companies
      2. Honored in specific store/company or chain of stores
      3. Credit cards are issued directly to the customer
      4. Regular or revolving charge plan payments are available
   b. Bank credit cards
      1. Issued by a bank or banks for general purposes
      2. Honored in a variety of places for a variety of goods and services
      3. Allows payment of various bills by one check
      4. Sometimes offers loan privileges
   c. Travel and entertainment credit agencies
      1. Issued by agencies after careful investigation of the applicant (card holder)
      2. An annual fee is charged for use of the card
      3. Are often used by business men (good expense records for business expenses absorbed by the employing firm)
7. Bank overdraft loans
   a. Prior written approval is required before exercising the privilege of overdrawing the checking account
   b. A maximum credit limit and repayment schedule is established
   c. Checks may be written against the credit limit (if the total amount owed does not exceed the limit) and this additional amount is credited to the account as a loan

d. Automatic deductions may be made from the checking account or monthly payments can be made to repay the loan
e. A finance charge on the outstanding balance is made with each month's payment or deduction (usually 1 1/2-2% monthly, 18-24% A.P.R.)

8. Pawn brokers
   a. Security is surrendered to the pawn broker until total repayment is made
   b. The loan is for 60-90% of the present value of the security
   c. High interest rates (30-36% A.P.R.) are usually charged
   d. The loan need not be repaid; however, the security goods will be forfeited to the pawn broker
9. Savings and Loan Associations
   a. Mostly for housing and real estate loans
   b. Can borrow against your own savings account (Interest rates are low - 7-8% A.P.R.)
10. Insurance companies
   a. Loan up to 95% of the cash value of the insured's policy
   b. No credit investigation is made
   c. Low interest rates (5-8% A.P.R.) are charged
   d. The face value of the policy is reduced by the amount of the loan in the event of the policy owner's death
   e. There is no time limit for repayment of the loan
   f. No service fee, for early loan repayment, is charged

IV. CREDIT AND YOUR CREDIT RATING

OBJECTIVES

IV. CREDIT AND YOUR CREDIT RATING

Major Objective:

To summarize factors concerning obtaining credit and a credit rating.

Specific Objectives:

Relate the factors influencing one's ability to obtain credit.

Cite examples of different processes used and information needed in obtaining credit.

Identify factors influencing one's credit rating.

Become aware of the importance of maintaining a good credit rating.

Learner Competencies:

List and explain the five major factors influencing one's ability to obtain credit.

Explain the purpose of a credit bureau.

Explain four of the five factors which influence one's credit rating.

Describe two of the possible procedures used to obtain credit information.

Name four of the seven types of information usually asked for on credit applications.

State the two major reasons for maintaining a good credit rating.

IV. CREDIT AND YOUR CREDIT RATING
(Conceptual Outline)

Reminder about outline: This is a conceptual outline in which both the major and minor ideas are presented in narrative form. For further explanation of the concepts, review one or more of the specific references noted on pages 66-70.

IV. Credit and Your Credit Rating

A. Factors influencing one's ability to obtain credit

1. Character
   a. Integrity in the use of the credit
   b. Honesty of the person applying
   c. Willingness of the person to repay the debts
2. Capacity
   a. Earning power (income) of the individual
   b. Current credit commitments of the individual
3. Capital
   a. Net worth of the individual (accumulated values minus all debts)
   b. Financial resources of the individual (cash value of life insurance policies, home ownership, automobile, savings account, etc.)
4. Collateral (items that can be used as security for a loan)
5. Conditions (the overall supply and demand of credit in the economy)
   a. The availability of money
   b. The general willingness of lenders to lend

B. The credit rating in the credit bureau file
1. Credit bureau
   a. An independently run, private, profit-making organization
   b. Collects information on and about individual consumers
   c. Sells information about an individual's credit behavior to lenders of credit
2. Credit file
   a. This is a written or computerized file which is begun the first time you use credit
   b. Contains information on an individual's credit record and credit behavior
3. File information and influences on the credit rating
   a. Date and number of other credit accounts is included
      1. Recency of other credit usage
      2. Present status of other accounts
   b. The largest amount extended to the credit customer
   c. Amounts that are outstanding for other accounts
   d. Amounts that are past due, if any
      1. Source or creditor
      2. Amount that is due

e. Legal suits
   1. Type of and reason for the suit
   2. Amount involved in the suit
   3. Resolution, if any

C. Processes used and information needed to obtain credit
   1. Processes used
      a. Written applications (commonly used for department store charge cards, bank charge cards, gas charge cards, club charge cards, and larger loans)
      b. Interviews (mostly used for larger loans)
      c. Phone calls (used for checking on details and references; also for service credit)
      d. Credit report from the credit bureau
   2. Information needed
      a. Personal information (person's name, birth date, social security number, address and number of years there)
      b. Employment (type of job held and number of years there)
      c. Income (amount of one's yearly salary plus any other income)
      d. Banking information (sources of checking and savings accounts and the account numbers)
      e. References (personal character references)
      f. Signature attesting that all information given is correct

D. Importance of maintaining a good credit rating
   1. Credit behavior is recorded by credit bureaus
   2. A good credit rating is needed to obtain future credit
   3. A credit rating follows you when you move

V. KNOWING YOUR RIGHTS AND RESPONSIBILITIES CONCERNING CREDIT

OBJECTIVES

V. KNOWING YOUR RIGHTS AND RESPONSIBILITIES CONCERNING CREDIT

Major Objective:

To summarize various consumer rights and responsibilities concerning credit.

Specific Objectives:

List the basic consumer rights and cite examples of legislation and agencies which help guarantee each of those consumer credit rights.

Identify general consumer credit responsibilities and describe the fundamental concepts behind each.

Learner Competencies:

State the four basic consumer rights concerning credit.

For each of the basic consumer credit rights, give two examples of legislation, agencies, or other information, further defining or guaranteeing that right.

Briefly describe the effects of four of the five major legislative measures on credit rights.

Identify two of the areas protected by the consumer's right to safety when using credit.

Identify two Federal agencies with whom one may file consumer credit complaints or seek redress because of consumer credit problems.

State the five major consumer responsibilities of credit usage.

Be aware of factors considered when determining the true Annual Percentage Rate.

Categorize six of the eleven sources of consumer credit into the three with the lowest Annual Percentage Rate and the three with the highest Annual Percentage Rate.

Cite six of the fourteen things to be sure are included in a contract, before agreeing to sign the contract.

Describe three ways to prevent overextension or misuse of consumer credit.

Summarize one's responsibility to repay debts promptly and meet credit obligations.

Identify the consequences of failing to meet financial obligations.

Explain the importance of giving accurate information about one's self for applications, contracts, and other written or verbal agreements.

V. KNOWING YOUR RIGHTS AND RESPONSIBILITIES CONCERNING CREDIT
(Conceptual Outline)

Reminder about outline: This is a conceptual outline in which both the major and minor ideas are presented in narrative form. For further explanation of the concepts, review one or more of the specific references noted on pages 66-70.

V. Knowing Your Rights and Responsibilities Concerning Credit

A. Rights

1. To be informed
   a. Truth-in-Lending Law (Consumer Credit and Protection Act)
      1. Disclosure statements are required as part of the contract to reveal pertinent information about the dollar amount of the loan and the percentage of interest charges
      2. The true Annual Percentage Rate charged must be the only one stated or referred to
      3. The itemized dollar cost of interest and all other charges plus total price must be given
      4. Discounting of loan can still occur. (This means that the interest dollar charges are deducted from the total amount borrowed before the consumer gets the net loan. Thus, the True Annual Percentage Rate is, accordingly, higher.)
      5. If credit life insurance is required or selected by the debtor as part of the loan, it must also be considered a cost of the loan and be reflected in the True Annual Percentage Rate.
      6. The first 75% of one's take home pay is exempt from garnishment, and an employee cannot be fired the first time his wages are garnisheed. No garnishment is allowed on disposable earnings.
      7. Creditors can compute finance charges on the outstanding unpaid balance in several ways:
         a. Average daily balance method (computed on the average amount outstanding)
         b. Adjusted balance method (computed on the difference between the outstanding balance and any payments made)
         c. Previous balance method (figured on the opening balance of the previous month)
         d. No finance charge is made but the total amount is due within 25-30 days
   b. Fair Credit Reporting Act, 1972
      1. Limits liability for lost credit cards to $50/card
      2. Credit rating disclosure
         a. If denied credit, an individual can find out the name and address of the creditor who issued a detrimental report and why

b. A discredited person may request to see his credit file during regular business hours or demand to be told what is in his file
c. Incorrect information must be deleted, if incorrect, and the credit bureau must inform others, who have been given this information, that it is incorrect
d. If information is verified as correct, the person may find out why and by whom

c. Fair Credit Billing Act, 1975
1. Consumers should report billing errors, in writing, and on a separate page from the bill itself
2. Customers need not pay questionable amounts, and his account may not be closed during the time of the dispute
3. Credit customers may withhold payment if the merchandise is defective
4. Creditors can give up to 5% discount to customers paying by cash rather than by credit, and credit card companies cannot demand that retailers not offer a discount to their cash customers

d. Equal Credit Opportunity Act
1. Credit cannot be denied to a person because of sex, marital status, race, religion, or age
2. Couples with joint bank accounts may request that information concerning these accounts be reported in each person's name so that both will have a credit history

2. To choose
a. Truth-in-Lending - An opportunity to compare costs at different credit granting institutions is possible; "shopping for credit" using the True Annual Percentage Rate and the dollar amount of interest charges for a comparison purpose is possible
b. Fair Credit Reporting Act - electing to notify creditors immediately about lost credit cards, thereby having no liability, is a matter of choice
c. Fair Credit Billing Act - choosing not to pay disputed amounts is an alternative but credit customers should be aware of the consequences of doing so
d. Equal Credit Opportunity Act
1. Creditors must not discriminate against the sex, marital status, race, religion, or age of the credit applicant
2. Income and past credit history should be the only determining factors when extending credit (income includes alimony, part-time employment, wages, savings and public assistance)
3. Limits the amount of personal information required of the applicant, and a co-signer may not be necessary
4. If a person is denied credit or his credit has been stopped he can demand an explanation
5. Creditors cannot ask information regarding the applicant's spouse if the spouse will not be sharing the account

6. An equal right to choose from all sources of creditors exists

3. To safety
   a. Lost credit card liability is up to $50/card, however, if the customer notifies the company, there is no liability under the Fair Credit Reporting Act.
   b. Since it is illegal for a company to send you a credit card unless you apply for it in writing, persons receiving unsoliciated cards will not be held liable for illegal use of such cards, under the Unsolicited Credit Card Act.
   c. If you agree that your home will serve as security for a loan, you have three business days to think about and cancel the agreement under part of the Truth-in-Lending Law. The seller must give you written information of this right to cancel, and you must tell him, in writing, of your decision if you decide to cancel.
   d. You are protected by law from harrassment while a credit dispute is underway, under the Fair Credit Billing Act.
   e. Credit customers may have the consumer report of their credit behavior withheld from anyone who has no right to the information, under the Fair Credit Reporting Act, and adverse information may not be reported after 7 years.
   f. Both lender and seller are responsible for a customer's satisfaction under the "holder-in-due course" ruling by the FTC. Even if the creditor and merchant are different agencies, the buyer may withhold payment if the merchandise is defective or if the seller does not fulfill his obligations. The consumer may even collect a full refund of payments made and cancel remaining payments.
   g. You must be informed of the sale of your repossessed goods under an FTC ruling, and the sale of these goods must be at a "commercially reasonable" sale price (Uniform Commercial Code).
   h. You are assured, by law, that you can have your individual credit history, regardless of your marital status, which can be separate from your spouse's (if any), under the Equal Credit Opportunity Act.
4. To be heard and seek redress
   a. Federally created legislation for credit redress
      1. Fair Credit Reporting Act
         a. Consumers may submit any credit related complaints in 100 words or less and have it included as a permanent part of the credit file.
         b. Customers may sue a reporting agency for damages if their actions are determined to be against the law, and can collect attorney's fees and court costs.
         c. Report violations of such accounts to the FTC in Washington, D.C. or a regional FTC office.
      2. Fair Credit Billing Act
         a. Credit customer may withhold payment and file legal claim against the issuer of the credit card, if merchandise is defective and if attempts to resolve the problem with the merchant have failed.
         b. Complaints are filed with the FTC's Bureau of Consumer Protection

3. Truth-in-Lending Law
   a. Buyers may sue up to $1,000 for damages plus attorney's fees on the grounds of false or incomplete credit information.
   b. Complaints are filed with the Federal Reserve Board.
4. FTC ruling - "Holder in due course"
   a. Credit customers may take their case to court rather than pay for defective merchandise or services (if the claim can be proved and if the contract was arranged by the seller and the consumer did not secure financing on his own.)
   b. Complaints can be filed with the merchant/lender and State or local agencies of the FTC; local offices or the Bureau of Consumer Protection in Washington, D.C. This does not refer to credit card purchases (see Fair Credit Billing Act), but to used cars, health spa contracts, self-improvement courses, home improvements, etc.
5. Equal Credit Opportunity Act
   a. If a credit applicant is being discriminated against, he must take the complaint to the creditor first.
   b. Subsequent complaints should be filed with local or state authorities, the Federal Reserve Board, the U. S. Department of Labor (Women's Bureau), Washington, D.C., or the FTC's Bureau of Consumer Protection.
6. FTC ruling - repossessed goods
   a. If you are not informed of the sale of your repossessed goods, you may file complaint with the FTC's Bureau of Consumer Protection.

b. Other Sources for seeking redress
   1. Legal Aid Society - aids people with their debt problems and can assist in the procedure for declaring bankruptcy
   2. Consumer Credit Counseling Service - a non-profit debt and financial management counseling service
   3. Credit Bureau - collects information about people establishing credit and sells this information to the lenders of credit
   4. Better Business Bureau - deals with misrepresentation and fraudulent advertising
   5. State Consumer Protection Agency - usually functions under the State Attorney General's or the Governor's office, and investigates consumer complaints, deals with disputes, recommends legislation, educates consumers to avoid fraud, cooperates with other state and local agencies, and encourages self-regulation of businesses
   6. State agencies (such as the State Corporation Commission or the State Bureau of Banking) enforcing usury laws and small loan laws
      a. Usury laws - set a legal maximum rate for those individuals lending money
      b. Small loan laws - larger interest rates are needed to service small loans but a ceiling is set on their rates; therefore, both borrower and lender are protected

7. Local, city, or county protection agencies - provide for consumer protection, information, education, and take part in supporting consumer legislation and policing consumer practices at the local level

B. Responsibilities

1. Determine credit costs
   a. Down payments
      1. These may be required
      2. Can help reduce the amount of the loan that must be financed, the total credit costs, and the final cost of the purchase
      3. Are subtracted from the sale price to determine the amount to be charged
   b. Finance charges
      1. Dollar amount - difference between the cash price charged and the final credit price paid
         Ex. $300 credit price
         - 250 cash price
         $ 50 dollar cost of the credit
      2. Annual Percentage Rate (true annual interest) tells the true (real) credit costs in percentage terms
         Ex. $APR = \frac{2YF}{D(T+1)}$

         APR=Annual Percentage Rate
         2=a constant
         Y=number of payments per Year
         F=total Finance charges or dollar cost
         D=net amount financed (Difference between total amount and down payment)
         T=Total number of payments

         If borrowing $200 (with no down payment) and repaying it in 12 months with payments of $18 each,

         Y=12 payments
         F=$16.00
         D=$200 financed
         T=12 payments

         $F=\begin{pmatrix}\$18\\ \times 12\\ 216\end{pmatrix}$ and $\begin{pmatrix}\$216\\ -200\\ \$\ 16\end{pmatrix}$

         $APR = \frac{2(12)(16)}{200(12+1)} = \frac{384}{2600} = .148$ (move decimal two places to right)

         APR = 14.8% annual interest
      3. The "stated interest rate" is actually different from the APR which more accurately describes the rate of interest. The true APR assumes that you did not have full use of the amount borrowed for the term of the loan since the amount is paid back in installments
         Ex. If borrowing $1,000 for 12 months at a stated interest rate of 8%, this indicates $80 as the dollar cost of the credit ($1,000 x .08 = $80), but

         $APR = \frac{2YF}{D(T+1)}$ $\quad APR = \frac{2(12)(\$80)}{\$1,000(12+1)} = \frac{1920}{13,000} = .147$ or true APR=14.7%

2. Compare sources as to credit costs (True Annual Percentage Rates)
   a. Banks
      1. Usually charge 10-14% annual interest
      2. May charge 18% for unsecured loans
      3. May charge 8 1/2% for secured loans and/or passbook loans
   b. Credit unions
      1. 9-12% annual interest usually charged
      2. 1% interest is charged on the unpaid balance
   c. Consumer finance companies
      1. 8-22% annual interest is charged
      2. Purchased goods may serve as collateral
   d. Sales finance companies
      1. 16-24% annual interest is charged
      2. Purchased goods may serve as collateral
   e. Department stores
      1. Usually 1 1/2% interest is charged on the unpaid balance
      2. 18% annual interest is charged
      3. 12-16% annual interest is charged on separate installment credit plans
   f. Credit cards
      1. Usually 1 1/2% interest is charged on the unpaid balance
   g. Bank overdraft loans
      1. 1 1/2% - 2% interest is charged on the unpaid balance
      2. 18-24% annual interest is charged
   h. Pawn brokers
      1. 30-36% annual interest is charged
      2. If loan cannot be repaid, the security goods must be forfeited
   i. Savings and loan associations
      1. 7-8% or more annual interest is charged
   j. Insurance companies
      1. 5-8% annual interest is charged
3. Read the contract to know personal responsibilities
   a. The sale price of the product must appear
   b. The down payment made on the item must be included
   c. The interest rate to be paid (true APR) must be stated
   d. The minimum balance to be paid at each installment or during each billing period must be stated
   e. The length of the billing period (amount of time allowed for payment of the bill, before additional charges are made) must be stated
   f. Limitations on the amount of credit the company will extend must be included
   g. The total amount financed (sale price minus down payment) should appear
   h. Any late payment charges (if bill is not paid before the end of the billing period) must be mentioned
   i. The conditions for prepaying must be stated

j. Prepayment charges (any extra amount that will be charged if the loan is repaid early-Rule of 78) must be stated
k. The time at which the title will pass to consumer (will this happen when the transaction is made or not until the loan is repaid in full. -- Chattel mortgage vs. contract purchase, i.e. title passes in former).
l. Authority for the creditor to investigate the credit history of the person applying for the loan/credit must appear
m. The debtor's obligations if the account is referred for collection must be explained
n. Any other terms of agreement must also be described

4. Keep accurate records to maintain a good credit rating and prevent credit overextension
   a. Credit limit
      1. Set by the creditor
      2. This is the maximum amount of credit that will be extended
   b. Budgeted limit
      1. An amount to be included in the personal budget for predicted credit transactions
      2. If credit payments amount to twenty percent or more of one's take home income, he is very likely over-extended and too far in debt.
   c. Receipt files
      1. Save all credit receipts
      2. Keep a file and/or an account of the amount of each debt and when each of the payments are due

5. Other consumer credit responsibilities
   a. Be certain all information given for written or verbal agreements is accurate
      1. Reread all information given to be certain it is correct.
      2. Your signature is a pledge that all information is correct.
   b. Repay debts promptly.
      1. This enables you to meet your credit obligations.
      2. This also helps you maintain a good credit rating.
   c. Realize that failure to pay an installment on time may result in the entire balance being declared due, immediately
   d. Be aware that late payments may result in added interest charges.
   e. Know that if you fail to pay your debt, the lending agency may repossess the items purchased, and you may still be required to repay the balance due on the goods.
   f. A co-signer (one who signs a credit agreement saying that they will fulfill the obligations of the debtor should the debtor be unable to pay), is liable for the amount due if the debtor defaults.

c. May lose the merchandise through repossessment of the goods by the creditor

6. Misuse results in a poor credit rating
   a. Misuse is recorded by credit bureaus
   b. The credit rating follows you always
   c. You may be considered a "bad risk" in the future
7. Credit cards may be lost or stolen
   a. You may be liable for some of the charges if the loss is not reported to the proper agency
   b. Take the proper steps if any credit cards are lost

LEADER ACTIVITIES

(PRESENTATIONS FOR FIVE SESSIONS)

SESSION ONE PRESENTATION

REASONS FOR USING CREDIT AND CONSEQUENCES OF CREDIT USAGE

The following plan is a suggested approach for a 50-minute presentation covering the first two components of the credit module.

The first column, "Section of Module" indicates the part of the module to be covered.

The "Type of Activity" column tells whether the activity is Recommended, Suggested, or Optional. Remember to concentrate first on the Recommended(R) activities and if time permits, next on the Suggested(S) activities, and finally on the Optional(O) activities.

The "Time" column suggests how many minutes might be spent on that particular activity in order to cover all of the material in 50 minutes. It is important to remember that it may be very difficult to cover all of this material in just 50 minutes. For this reason, be especially careful not to exceed the time limit suggestions in the "Time" column unless you take equal time away from another part.

The "Activity" column suggests activities for meeting the objectives. Often an activity says "list", "state", or "define" for example. The actual approach to be used is left for you to decide. If you have facilities for overhead projection, chalkboard, or flip chart, these can be used as well. You are urged to use whatever method you feel is most effective, convenient, and available.

When an asterisk(*) appears at the end of an activity, it indicates that a transparency master for that particular activity is in the Appendix. Before you proceed be sure that you are familiar with the objectives for these two components, the material in the conceptual outline for each component, and have decided how you will accomplish each activity.

Section of Module	Type of Activity	Time (Min.)	Activity
Introduction	R	5	State that: "Consumer credit is a term we are all familiar with but which many of us we would like to know more about. There are many aspects of credit to be considered, too. In this session, we will be taking a look at the reasons for using credit and the consequences of using credit. We should begin by defining credit as A TRUST THAT GOODS AND SERVICES RECEIVED NOW, WILL BE PAID FOR IN THE FUTURE." (Say this definition again.)

Section of Module	Type of Activity	Time (Min.)	Activity
I Reasons for Using Credit	R	7	(Oral Pretest) Ask some or all of the following questions to stimulate thought and to check the amount of understanding the learners have about this topic.* (The transparency of objectives can be shown while asking these questions.) "I cannot seem to pay my bills and feel further in debt every month. What should I do?" (See page 25,E.) "The new furniture I've been admiring has been put on sale. What can I do?" (See page 25, B.) "The hot water heater went on the blink. What can I do?" (See page 25, C.) "My child's college scholarship has been discontinued. What can I do?" (See page 25, A.) After asking these questions and receiving responses from the group, state this generalization: "Credit can be used to satisfy both wants and needs."
	R	10	List the five reasons for using credit from page 25, and one at a time, ask for examples of each.
II Consequences of Credit Usage	R	8	Ask some or all of the following questions to stimulate thought and to check the amount of understanding the learners have about this topic.* (The transparency showing objectives can be shown while asking these questions.) "Is it possible for me to afford luxuries on a limited monthly income?" (See page 28, A.1.) "The sale price was irresistable, but I could not pay the total bill last month, so they have added finance charges, bringing the price back up again." (See page 29, B.4.b.) "Where does my money go? I had $50 at the beginning of the week, and now there is none!" (See page 28, A.5.) After asking these questions and receiving responses from the group, state this generalization: "There are advantages and disadvantages to using consumer credit, all of which should be considered before actually using credit."
	R	15	Make a two-column chart labeled, "Advantages v. Disadvantages."* Underneath the appropriate column heading, begin listing the advantages and disadvan-

Section of Module	Type of Activity	Time (Min.)	Activity
II (Cont.)			tages of using credit from pages 28 and 29, discussing each as it is written(or viewed on the transparency), by giving brief examples or explanations(also on pages 28 and 29.)
	O		Ask the group if they can think of any other advantages or disadvantages of using credit.
-	S	5	Ask if anyone has questions or comments concerning the information on consumer credit covered in this session.

SESSION TWO PRESENTATION

TYPES AND SOURCES OF CREDIT

The following plan is a suggested approach for a 50-minute presentation covering the third component of the credit module.

The first column, "Section of Module" indicates the part of the module to be covered. The "Type of Activity" column tells whether the activity is Recommended, Suggested, or Optional. Remember to concentrate first on the Recommended(R) activities, and if time permits, next on the Suggested(S) activites, and finally on the Optional(O) activities.

The "Time" column suggests how many minutes might be spent on that particular activity in order to cover all of the material in 50 minutes. It is important to remember that it may be very difficult to cover all of this material in just 50 minutes. For this reason, be especially careful not to exceed the time limit suggestions in the "Time" column unless you take equal time away from another part.

The "Activity" column suggests activities for meeting the objectives. Often an activity says "list", "state", or "define", for example. The actual approach to be used is left for you to decide. If you have facilities for overhead projection, chalkboard, or flip chart, these can be used as well. You are urged to use whatever method you feel is most effective, convenient, and available.

When an asterisk(*) appears at the end of an activity, it indicates that a transparency master for that particular activity is in the Appendix. Before you proceed, be sure that you are familiar with the objectives for this component, the material in the conceptual outline, and have decided how you will accomplish each activity.

Section of Module	Type of Activity	Time (Min.)	Activity
III Types and Sources of Credit	R	2	State: "During this session we will be talking about the types and sources of consumer credit. Some, you may be familiar with but others may be new to you."
	R	8	(Oral Pretest) Ask some or all of the following questions to stimulate thought and to check the amount of understanding the learners have about this topic.* (The transparency of objectives can be shown while asking these questions.) "Can I get an installment loan at a department store?" (See page 32, A.1.) "Are all credit card deals the same?" (See page 33, B.6.) "Does it make any difference where you go for a loan?" (See page 32-34, B.)

Section of Module	Type of Activity	Time (Min.)	Activity
III (Cont'd)			"What does it cost when I overdraw my checking account?" (See page 33, B.7.) "Does the amount borrowed from the consumer finance company have to be backed by collateral?" (See page 33, B.3.) After asking these questions and receiving responses from the group, state this generalization: "There are different types of credit and many different places to obtain credit, each having characteristics that consumers seeking credit should be aware of."
	R	10	Explain that there are basically two types of consumer credit, installment and non-installment. Describe each (see page 32) and have the learners give examples.*
	R	10	Describe the ten sources of consumer credit listed on pages 32-34.* Allow time for the group to consider and discuss each.
	S	5	Review the three sources with the lowest true Annual Percentage Rate and the three with the highest true Annual Percantage Rate.
	S	10	Point out the special characteristics of each of the ten sources explained on pages 32-34. Ask if there are any questions.
	O		Ask if any of the group members belong to a credit union or if they have one where they work. Do some of them have life insurance policies which they might borrow against? What consumer credit sources have they used? Which do they feel are the best?
-	S	5	Ask if anyone has questions or comments concerning the information on consumer credit covered in this session.

SESSION THREE PRESENTATION

CREDIT AND YOUR CREDIT RATING

The following plan is a suggested apprcach for a 50-minute presentation covering the fourth component of the credit module.

The first column, "Section of Module" indicates the part of the module to be covered. The "Type of Activity" column tells whether the activity is Recommended, Suggested, or Optional. Remember to concentrate first on the Recommended(R) activities, and if time permits, next on the Suggested (S) activities, and finally on the Optional(O) activities.

The "Time" column suggests how many minutes might be spent on that particular activity in order to cover all of the material in 50 minutes. It is important to remember that it may be very difficult to cover all of this material in just 50 minutes. For this reason, be especially careful not to exceed the time limit suggestions in the "Time" column unless you take equal time away from another part.

The "Activity" column suggests activities for meeting the objectives. Often an activity says "list", "state", or "define", for example. The actual approach to be used is left for you to decide. If you have facilities for overhead projection, chalkboard, or flip chart, these can be used as well. You are urged to use whatever method you feel is most effective, convenient, and available.

When an asterisk(*) appears at the end of an activity, it indicates that a transparency master for that particular activity is in the Appendix. Before you proceed, be sure that you are familiar with the objectives for this component, the material in the conceptual outline, and have decided how you will accomplish each activity.

Section of Module	Type of Activity	Time (Min.)	Activity
IV Credit and Your Credit Rating	R	2	State: "During this session we will be discussing the credit rating, what it is, and what it can mean to you."
	R	5	(Oral Pretest) Ask some or all of the following questions to stimulate thought and to check the amount of understanding the learners have about this topic.* (The transparency of objectives can be shown while asking these questions.) "Does a credit rating follow me forever?" (See page 38, D.3.) "Does everyone have a credit rating?" (See page 37, B.2.) "Where is the local credit bureau located?" (See

Section of Module	Type of Activity	Time (Min.)	Activity
IV (Cont'd)			your local telephone directory or your local Better Business Bureau for this information.) After asking these questions and receiving responses from the group, state this generalization: "A credit rating is established the first time you use credit and follows you everywhere as a record of your continuous credit behavior."
	R	8	Vertically, list five letter "C's". After the first "C", write the word from page 37, which represents the first influence on one's ability to obtain credit. Give an example of what it means in terms of obtaining consumer credit (also on page 37). Do the same for the next four factors.*
	R	2	Describe how the credit bureau operates (page 37).
	R	8	Discuss factors influencing one's credit rating (page 37).
	R	2	Discuss why it is important to maintain a good credit rating (page 38).
	R	2	Explain that there are four ways or processes that agencies use to obtain credit information. Tell and, briefly, discuss what they are (page 38).
	R	5	Show examples of written credit applications.* Discuss the various questions on the applications as each relates to the five "C's" of obtaining credit (page 38).
	R	10	Discuss with the group what questions are commonly asked during a credit interview, in terms of the five "C's" of obtaining credit.* (Role-play)
	R	2	Tell what types of questions are commonly asked on the telephone (page 38).
-	S	4	Ask if anyone has questions or comments concerning the information on consumer credit covered in this session.

SESSION FOUR PRESENTATION

KNOWING YOUR RIGHTS AND RESPONSIBILITIES CONCERNING CREDIT (Part I)

The following plan is a suggested approach for a 50-minute presentation covering the first part (Consumer Credit Rights) of the fifth component of the credit module.

The first column, "Section of Module" indicates the part of the module to be covered.

The "Type of Activity" column tells whether the activity is Recommended, Suggested, or Optional. Remember to concentrate first on the Recommended (R) activities, and if time permits, next on the Suggested(S) activities, and finally on the Optional(O) activities.

The "Time" column suggests how many minutes might be spent on that particular activity in order to cover all of the material in 50 minutes. It is important to remember that it may be very difficult to cover all of this material in just 50 minutes. For this reason, be especially careful not to exceed the time limit suggestions in the "Time" column unless you take equal time away from another part.

The "Activity" column suggests activities for meeting the objectives. Often an activity says "list", "state", or "define", for example. The actual approach to be used is left for you to decide. If you have facilities for overhead projection, chalkboard, or flip chart, these can be used as well. You are urged to use whatever method you feel is effective, convenient, and available.

When an asterisk(*) appears at the end of an activity, it indicates that a transparency master for that particular activity is in the Appendix. Before you proceed, be sure that you are familiar with the objectives for the first part of this component, the material in the conceptual outline (Part A. Rights), and have decided how you will accomplish each activity.

Section of Module	Type of Activity	Time (Min.)	Activity
V (Part A) Knowing Your Rights and Responsibilities Concerning Credit	R	2	State: "We all have certain rights and responsibilities related to our use of consumer credit. During this session, we will be concerned with our consumer credit rights."
	R	8	(Oral Pretest) Ask some or all of the following questions to stimulate thought and to check the amount of understanding the learners have about this topic.* (The transparency of objectives can be shown while asking these questions.)

Section of Module	Type of Activity	Time (Min.)	Activity
V (Part A) (Cont'd)			"What rights do women have concerning credit?" (See pages 43-44, A.1.d and A.2.d and A.3.h.) "What should I do if I feel I have been treated unfairly in a credit transaction?" (See page 44, A.4.) "If I have been turned down after applying for credit, what can I do?" (See page 42, A.1.b.) "Can alimony or child support money be counted as income on a credit application?" (See page 43, A.2.d.2.) After asking these questions and receiving responses from the group, state this generalization: "Each consumer has rights which can help him know how to use credit wisely."
	R	2	List the four consumer credit rights from pages 42-46.
	R	28 (7 min. per law)	Discuss the four major credit related laws (pages 42-46 in terms of what they do for the consumer (or how they apply to the four rights.)*
	R	5	Discuss the other sources of consumer credit redress from pages 44 and 46.*
-	R	5	Ask if anyone has questions or comments concerning the information on consumer credit covered in this session.

SESSION FIVE PRESENTATION

KNOWING YOUR RIGHTS AND RESPONSIBILITIES CONCERNING CREDIT (Part II)

The following plan is a suggested approach for a 50-minute presentation covering the second part (Consumer Credit Responsibilities) of the fifth component of the credit module.

The first column, "Section of Module" indicates the part of the module to be covered.

The "Type of Activity" column tells whether the activity is Recommended, Suggested, or Optional. Remember to concentrate first on the Recommended(R) activities, and if time permits, next on the Suggested(S) activities, and finally on the Optional(O) activities.

The "Time" column suggests how many minutes might be spent on that particular activity in order to cover all of the material in 50 minutes. It is important to remember that it may be very difficult to cover all of this material in just 50 minutes. For this reason, be especially careful not to exceed the time limit suggestions in the "Time" column unless you take equal time away from another part.

The "Activity" column suggests activities for meeting the objectives. Often an activity says "list", "state", or "define", for example. The actual approach to be used is left for you to decide. If you have facilities for overhead projection, chalkboard, or flip chart, these can be used as well. You are urged to use whatever method you feel is most effective, convenient, and available.

When an asterisk(*) appears at the end of an activity, it indicates that a transparency master for that particular activity is in the Appendix. Before you proceed, be sure that you are familiar with the objectives for the second part of this component, the material in the conceptual outline (Part B. Responsibilities), and have decided how you will accomplish each activity.

Section of Module	Type of Activity	Time (Min.)	Activity
V (Part B) Knowing Your Rights and Responsibilities Concerning Credit	R	1	State: "In addition to our rights in using consumer credit, we have certain responsibilities to remember when using credit. During this session, we will be concerned with these responsibilities."
	R	7	(Oral Pretest) Ask some or all of the following questions to stimulate thought and to check the amount of understanding the learners have about this topic.* (The transparency of objectives can be shown while asking these questions.) "Don't bank and auto dealers charge about the same

Section of Module	Type of Activity	Time (Min.)	Activity
V (Part B) (Cont'd)			for interest?" (See page 47, B.2.a. and B.2.d.) "How can I figure out the real cost of a credit purchase?" (See page 46, B.1.) "What should I look for in a contract before I sign?" (See pages 47-48, B.3.) "Isn't it true that under the law, I am not liable for illegal use of a lost credit card?" (See page 44, A.3.a.) After asking these questions and receiving responses from the group, state this generalization: "Each consumer has responsibilitiies which can help him know how to use credit wisely."
	R	2	List the five consumer credit responsibilities(from pages 46-49.)
	R	5	Explain how to compute the true Annual Percentage Rate(page 46).* Help the group draw conclusions about the effect of the amount of interest and the amount of downpayment on the real cost of the credit transaction.
	R	4	Rank the ten sources of consumer credit from lowest to highest true Annual Percentage Rate charged.* Discuss the great differences in terms of actual cost to the consumer (page 47.)
	R	9	Describe an example of a consumer credit contract.* Mention the fourteen things, from pages 47-48, to be sure are included before signing the contract. Discuss each.
	S	8	Ask the group to discuss how they keep records of credit transactions. Ask them to make suggestions of how to keep accurate accounts of credit expenditures. Depending on their responses, suggest ways of keeping accurate records in addition to suggesting ways to prevent overextension of credit by setting limits on amounts to be spent in credit per month (page 48).
	R	9	Review the consequences of failing to meet credit obligations(pages 48-49.) Ask the group to draw conclusions about the importance of repaying debts promptly and of meeting one's financial obligations.
	S	5	Ask if anyone has questions or comments concerning the information on consumer credit covered in this session or in any other session of the module.

GLOSSARY

GLOSSARY

Acceleration Clause - A statement granting the creditor the right to demand that all payments become due.

Annual Percentage Rate - The actual rate of interest figured on a yearly basis and expressed in percentage terms.

Balance - Total amount due after downpayments are made, or the amount remaining to be paid.

Balloon Clause - A statement allowing for attractive, low monthly payments until the end of the contract period when amounts may be significantly higher than in previous payments.

Bankruptcy - A legal proceeding declaring that an individual is overextended in debt or unable to pay obligations. Assets may be distributed among creditors.

Budget - A systematic method of planning the use of income for various expenditures.

Capital - Assets in the form of cash, property or securities belonging to a person.

Charge Account - Arrangement permitting the customer to buy goods and services now and pay for them later.

Collateral - Something of worth which serves as security for a loan.

Consumer Finance Company - A business which makes installment loans to consumers.

Contract - A sales agreement between creditor and debtor stating conditions of sale.

Credit - A trust that goods or services received now will be paid for in the future.

Credit Bureau - Agency which collects information on the credit behavior of individual consumers and sells the information to qualified firms or businesses for confidential use.

Credit Rating - A record of an individual's past credit behavior.

Credit Union - A cooperative association which extends credit to members only.

Creditor - A person or agency that extends credit by lending money or selling goods and services on credit.

Debtor - A person who receives credit and promises to repay

Default - Failure to meet a payment or to fulfill an obligation.

Disclosure Statement - A statement giving all the terms of the credit transaction.

Discounting - Deducting service charges, for the credit being extended, before giving the borrower the money loaned him.

Dollar Cost of Credit - The total cost of using the credit expressed in dollars - the total cost minus the down payment.

Down Payment - Any money paid as an initial installment on the total cost of an item.

Finance Charge - The amount charged for the use of the credit services.

Garnishment - A court order presented to a debtor's employer requiring that part of his wages be used to repay a creditor because payments to him are past due.

Installment Credit - A type of credit in which repayment is made at specific intervals for a stated period of time.

Interest - Amount paid for the use of credit over a period of time.

Liability - An obligation to pay for merchandise or to insure the quality of merchandise.

Outstanding Balance - The amount of money or charges still to be paid.

Overdraft - A check written for an amount exceeding the balance in the signer's account.

Principal - The amount to be paid on the original amount borrowed, not on the interest amount added to the loan.

Service Credit - Credit extended by utility companies or professional agencies allowing use of their service before paying for it.

Title - A document indicating legal ownership.

Unpaid Balance - Amount remaining to be paid.

Usury - Excessive charge for the use of money.

SOURCES OF FURTHER REFERENCE

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For more in-depth reading on the preceding topics, see any one or more of the following references. If these are not available in your local school, college, or public library, you may wish to order several for your use.

Textbooks

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Warmke, Roman F., Eugene D. Wyllie, W. Harmon Wilson, and Elvin S. Eyster, Consumer Economic Problems, South-Western, Publishing Co., N.Y., 1971, pp. 152, 189, 420-437, 451.

Articles

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Chan, J., "Getting Credit In Your Own Name," Mc Call's, vol. 109 (August, 1976), pp. 96-99.

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"Credit Cards: Growing Concern Over Your Privacy," U.S. News & World Report, (February 23, 1976), p. 43.

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"When You Need to Borrow Cash . . .," Changing Times, vol. 29 (February, 1975), pp. 33-34.

Organizations

Private

American Bankers Association, 12 East 36th Street, New York, N.Y., 10016.

American Bar Association, 1155 East 60th Street, Chicago, Il., 60637.

American Council on Consumer Interests, 162 Stanley Hall, University of Missouri, Columbia, Mo., 65201.

Council of Better Business Bureaus, Inc., 1150 - 17th Street, N.W., Washington, D.C., 20036.

Household Finance Corporation, Prudential Plaza, Chicago, Il., 60601.

National Advertising Review Board, 850 Third Avenue, New York, N.Y., 10022.

National Committee for Education in Family Finance, 277 Park Avenue, New York, N.Y., 10017.

National Consumer Finance Association, Educational Services Division, 1000 - 16th Street, N.W., Washington, D.C., 20036.

National Public Interest Research Groups, 1832 M Street, N.W., Washington, D.C., 20036.

J.C. Penneys, Educational Relations, 1301 Avenue of the Americas, New York, N.Y., 10019.

Sears Roebuck and Company, Consumer Series, Department 703-Public Relations, Chicago, Il., 60611.

Federal

Department of Labor, Washington, D.C., 20210.

Bureau of Consumer Protection, Federal Trade Commission, 6th Floor, 2120 L Street, N.W., Gelman Building, Washington, D.C., 20037.

Office of Saver and Consumer Affairs, Federal Reserve System, Washington, D.C., 20551.

Office of Consumer Affairs, Department of HEW, Washington, D.C., 20201.

U.S. Congressman or Senator

State

Attorney General's Office, 1101 E. Broad Street, Richmond, Va., 23219.

Office of Consumer Affairs, Virginia Dept. of Agriculture and Commerce, 825 East Broad Street, P.O. Box 1163, Richmond, Va., 23219.

State Legislator

Virginia Citizens Consumer Council, P.O. Box 777, Springfield, Va., 22150

Consumer Credit Counseling & Educational Service of Greater Washington, Inc., 3541 Chain Bridge Road, Fairfax, Va., 22030.

Virginia Legal Aid Society, P.O. Box 417, Richmond, Va., 23203.

Virginia Retail Merchants Association, Raleigh Hotel, Suite #3, Richmond, Va., 23219.

State Corporation Commission, 800-552-9760.

Local

County and City consumer protection agencies

Local banks

Local Better Business Bureaus:

Better Business Bureau of Metropolitan Washington, 1111 E Street, N.W., Washington, D.C., 20004.

Better Business Bureau of Roanoke Valley, Suite 646-A, Crystal Tower Building, 145 West Campbell Avenue, Roanoke, Va., 24011.

Better Business Bureau of Richmond, 4020 West Broad Street, Richmond, Va., 23230.

Tidewater Better Business Bureau, 114 West York Street, Norfolk, Va., 23510.

Local Chamber of Commerce

Local Credit Bureaus

PIRG (Student Public Interest Research Groups), located at some university and college campuses.

County Extension Agent

VPI & SU Extension Services

A local credit union (for information on credit fees, debts, credit laws, financial counseling, purchasing a car or life insurance)

Local Legal Aid Society

EVALUATION

Rather than have the adult learners complete a final post-test, it is suggested that you use this type of evaluation. By using this form of evaluation, you will have an idea of what the participants actually learned, and which of your techniques you may want to use again or alter. If, on the other hand, you prefer giving a formal post-test to better assess actual learning, the competencies at the beginning of this module have been designed to facilitate making questions for such a test.

In order to keep the evaluation brief in length and in time needed for completion, three questions might be asked. The participants could write their answers and comments and turn them in to you with their name on them or anonomously. The three areas of information you want for the evaluation will likely include:

1. Describe your overall reactions to our session(s) on "Obtaining and Using Credit."
2. List the three most important things which you feel you learned from our credit session(s).
3. What recommendation(s) can you give for similar sessions to be held in the future?

Other possible questions to help assess the learning of the participants might cover:

- What are some reasons for using credit?
- What are some of the consequences of using credit?
- What are some of the types and sources of consumer credit?
- Explain the significance of the credit rating and how a credit rating is established.
- What are some consumer rights and responsibilities concerning credit?

REACTIONS TO YOUR USE OF THIS MODULE

1. I used this module with the following group of adults:
   (please describe)

2. The group's reactions to the modular approach were:

3. My reactions to using this approach are:

4. My suggestions for revisions are:

Please return to:

E. Thomas Garman
Virginia Polytechnic Institute
and State University
Management, Housing and Family
Development
Wallace Hall 226
Blacksburg, Virginia 24061

APPENDIX

I. REASONS FOR USING CREDIT

MAJOR OBJECTIVE: To explain reasons for the use of credit.

SPECIFIC OBJECTIVES: Cite the major reasons for using credit and give examples of each reason.

II. CONSEQUENCES OF CREDIT USAGE

MAJOR OBJECTIVE: TO MAKE PREDICTIONS ABOUT THE CONSEQUENCES OF USING CREDIT.

SPECIFIC OBJECTIVES: LIST SEVERAL ADVANTAGES OF USING CREDIT, AND GIVE EXAMPLES OF EACH.
LIST SEVERAL DISADVANTAGES OF USING CREDIT, AND GIVE EXAMPLES OF EACH.

II. CONSEQUENCES OF CREDIT USAGE

II. Consequences of Credit Usage

A. Advantages

1. To improve one's general level of living- one's level of living is not restricted to the amount of cash on hand
2. To take advantage of sales
3. To purchase large items and use them while still paying for them
4. To make purchases more conveniently
5. To manage overall expenditures more effectively
6. To establish a credit rating
7. To beat inflation
8. To use it as a form of "savings"
9. To keep savings intact

B. Disadvantages

1. Future earnings are already committed to be spent
2. Provides a false sense of security
3. Decreases cash savings
4. Pay finance charges in addition to the cost of the product or service
5. May lead to credit overextension or bankruptcy
6. Misuse results in a poor credit rating
7. Credit cards may be lost or stolen

ADVANTAGES V. DISADVANTAGES OF CREDIT USAGE

Advantages	Disadvantages
Improves general level of living	Future earnings are already committed to be spent
Allows taking advantage of sales	Provides a false sense of security
Lets you use large items while paying for them	Decreases cash savings
Make purchases more conveniently (no need to carry cash)	May lead to credit overextension or bankruptcy
Manage overall expenditures effectively with receipts	Misuse results in poor credit rating
Establish a credit rating	Credit cards may be lost or stolen
Can help beat inflation	Other:
Use it as a form of savings	
Other:	
_____	_____
_____	_____
_____	_____
_____	_____

III. TYPES AND SOURCES OF CREDIT

MAJOR OBJECTIVE: TO DESCRIBE VARIOUS TYPES AND SOURCES OF CONSUMER CREDIT.

SPECIFIC OBJECTIVES: INDICATE THE DIFFERENCES BETWEEN INSTALLMENT AND NON-INSTALLMENT CREDIT PLANS.
DIFFERENTIATE AMONG THE SOURCES OF PLACES TO OBTAIN CREDIT.

TYPES OF CONSUMER CREDIT

INSTALLMENT

USED FOR MAJOR PURPOSES, USUALLY
REPAYMENT IS OVER A SERIES OF MONTHS OR YEARS
SPECIFIED AMOUNT OF INTEREST IS PAID
EACH INSTALLMENT USUALLY INCLUDED THE FINANCE CHARGES
SOMETIMES, TOTAL AMOUNT CAN BE REPAID, BEFORE IT IS DUE,
TO AVOID SOME OF THE FINANCE CHARGES
USUALLY INVOLVES A WRITTEN AGREEMENT
MAY REQUIRE A TRADE-IN OR DOWNPAYMENT

NON-INSTALLMENT

A SINGLE PAYMENT IS MADE
THERE ARE NO FIXED PAYMENTS
TYPES INCLUDE:
SERVICE CREDIT - YOU APPLY FOR SERVICE AND MAY HAVE TO PAY A DEPOSIT (UTILITY BILLS)
DOCTOR'S BILLS - USUALLY PAID IN FULL WHEN DUE
CHARGE ACCOUNTS - MAY PAY AMOUNT DUE IN 30 DAYS (REGULAR) OR PAY A PORTION WITHIN FIRST 30 DAYS AND THE REMAINDER LATER (REVOLVING CHARGE)

SOURCES OF OR PLACES TO OBTAIN CREDIT

1. Commercial banks
2. Credit Unions
3. Consumer finance companies
4. Sales finance companies
5. Department stores
6. Credit cards
7. Bank overdraft loans
8. Pawn brokers
9. Savings and Loan Associations
10. Insurance companies

TEN SOURCES OF CONSUMER CREDIT

Commercial Banks

Collateral often required; monthly repayments usually required; low interest rates (10-14% annually); average loan about $1,100; serve low and medium risk customers; service fee for early repayment; may discount amount of loan-deduct the service charge before giving the amount of the loan to the customer; character or signature loans usually available

Credit Unions

Membership required to receive a loan; low interest rate(9-12% annually); character or signature loan usually available; payroll deduction normally required; may have limit on borrowed amounts; usually quick and easy service

Consumer Finance Companies

Maximum amounts to borrow are limited; serve highest risk customers; higher interest rate(14-36% annually); high degree of advertising and promotion; service fee for early repayment; collateral needed to insure loan

Sales Finance Companies

Lending arranged through retailer(usually automobiles); indirect borrowing in that it is not the retailer that provides the credit; may serve higher risk customers; higher interest rate (16-24% annually); purchased goods serve as collateral(new car); service fee for early repayment

Department Stores

Credit available soon after submitting application; revolving credit available with the option of paying in full when bill is received or paying in installment credit plan available (interest rate of 12-16%); add-on option is usually available on installment plans

Credit Cards-Customer's credit will be honored up to specified amount

Retail store credit cards-issued by department stores and oil companies, honored in specific store, company, or chain of stores, credit cards are issued directly to customer, regular or revolving charge plan payments are available

TEN SOURCES OF CONSUMER CREDIT (CONTINUED)

Bank credit cards-issued by bank or banks for general purposes, honored in a variety of places for a variety of goods and services, sometimes offers loan privileges

Travel and entertainment credit cards-issued by agencies after careful investigation of card holder, annual fee is charged for use of card, often used by business men (good expense record for business expenses absorbed by employing firm)

Bank Overdraft Loans

Prior written approval required before exercising privileges; maximum credit limit and repayment schedule established; checks may be written against credit limit (if total amount owed does not exceed limit; additional amount is credited to account as a loan); automatic deductions may be made from checking account or monthly payments are made to pay back loan; finance charge on outstanding balance is made with each month's payment or deduction (usually 1 1/2-2% monthly, 18-24% annually)

Pawn Brokers

Security surrendered to pawn broker until repayment; loan is for 60-90% of present value of security; high interest rates (30-36% annually); loan need not be repaid (but the security goods will be forfeited)

Savings and Loan Associations

Mostly housing and real estate loans; can borrow against personal savings account (interest rates are low - 7-8% annually)

Insurance Companies

Loan up to 95% of cash value of insured's policy; no credit investigation; low interest rates (5-8% annually); face value of policy is reduced by amount of loan in event of death; no time limit for repayment; no service fee for early loan repayment

IV. CREDIT AND YOUR CREDIT RATING

MAJOR OBJECTIVE: TO SUMMARIZE FACTORS CONCERNING OBTAINING CREDIT AND A CREDIT RATING.

SPECIFIC OBJECTIVES: RELATE THE FACTORS INFLUENCING ONE'S ABILITY TO OBTAIN CREDIT.
CITE EXAMPLES OF DIFFERENT PROCESSES USED AND INFORMATION NEEDED IN OBTAINING CREDIT.
IDENTIFY FACTORS INFLUENCING ONE'S CREDIT RATING.
BECOME AWARE OF THE IMPORTANCE OF MAINTAINING A GOOD CREDIT RATING.

THE FIVE C'S

(MAJOR FACTORS INFLUENCING ABILITY TO OBTAIN CREDIT)

-CHARACTER: INTEGRITY IN USE OF CREDIT
HONESTY
WILLINGNESS TO REPAY

-CAPACITY: EARNING POWER (INCOME)
CURRENT CREDIT COMMITMENTS

-CAPITAL: NET WORTH OF INDIVIDUAL - ACCUMULATED ASSET VALUES MINUS DEBTS
FINANCIAL RESOURCES - CASH VALUE OF LIFE INSURANCE, HOME, CAR, SAVINGS ACCOUNT, ETC.

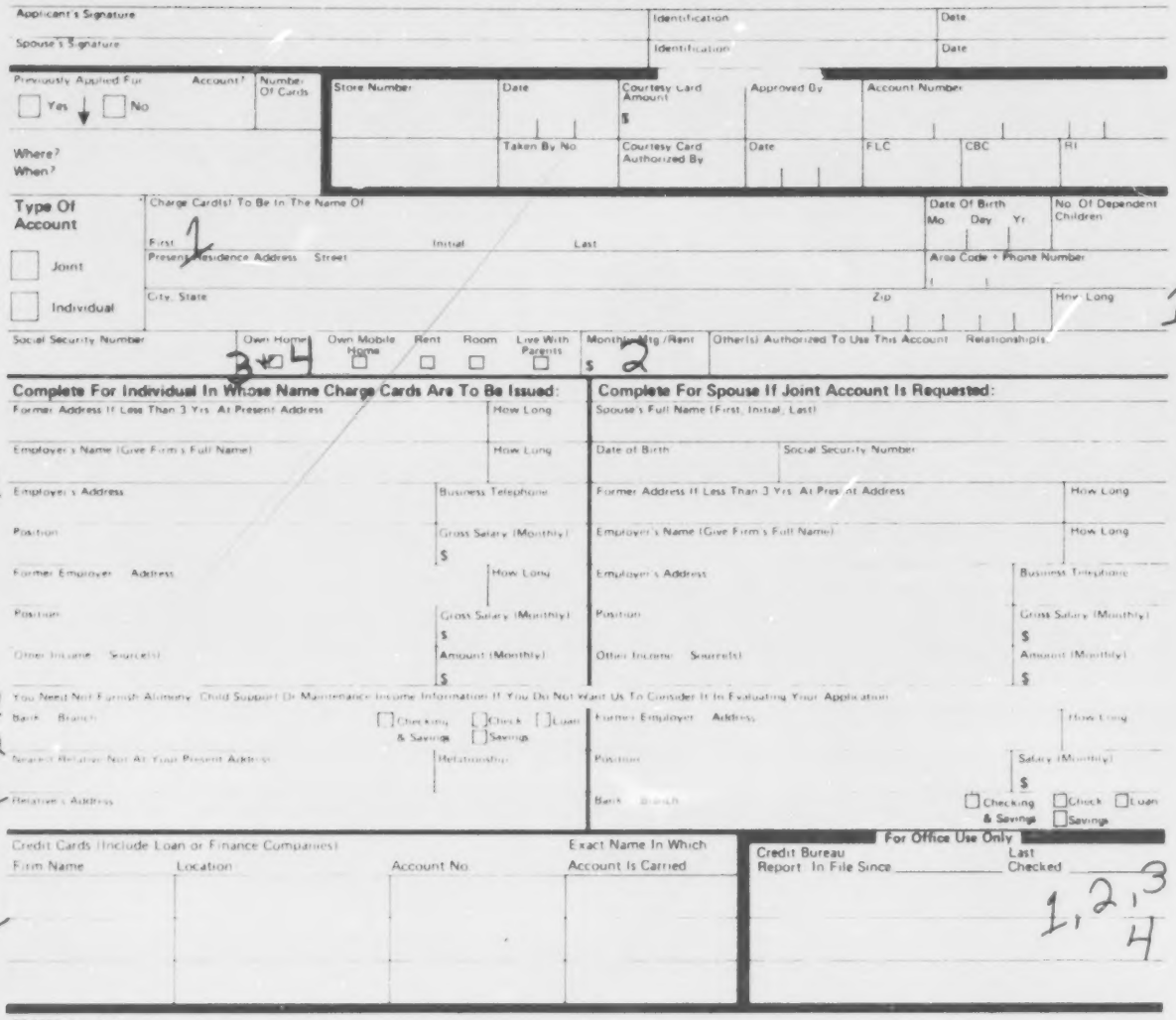
-COLLATERAL: ITEMS WHICH CAN BE USED AS SECURITY FOR A LOAN IN CASE YOU DEFAULT

-CONDITIONS: OVERALL SUPPLY AND DEMAND OF CREDIT
AVAILABILITY OF MONEY
GENERAL WILLINGNESS OF LENDERS TO LEND

FACTORS INFLUENCING ONE'S ABILITY TO OBTAIN CREDIT

1. Character
2. Capacity
3. Capital
4. Collateral (items that can be used as security for a loan)
5. Conditions (the overall supply and demand of credit in the economy)

SAMPLE APPLICATION FOR CREDIT



Applicant's Signature | Identification | Date
Spouse's Signature | Identification | Date

Previously Applied For Account? ☐ Yes ☐ No | Number Of Cards | Where? When? | Store Number | Date | Courtesy Card Amount $ | Approved By | Account Number | Taken By No. | Courtesy Card Authorized By | Date | FLC | CBC | HI

Type Of Account: ☐ Joint ☐ Individual

Charge Card(s) To Be In The Name Of: First | Initial | Last | Date Of Birth Mo. Day Yr | No. Of Dependent Children

Present Residence Address Street | Area Code + Phone Number

City, State | Zip | How Long

Social Security Number | Own Home ☐ | Own Mobile Home ☐ | Rent ☐ | Room ☐ | Live With Parents ☐ | Monthly Mtg./Rent $ | Other(s) Authorized To Use This Account | Relationship

Complete For Individual In Whose Name Charge Cards Are To Be Issued:

Former Address If Less Than 3 Yrs. At Present Address | How Long

Employer's Name (Give Firm's Full Name) | How Long

Employer's Address | Business Telephone

Position | Gross Salary (Monthly) $

Former Employer Address | How Long

Position | Gross Salary (Monthly) $

Other Income Source(s) | Amount (Monthly) $

You Need Not Furnish Alimony, Child Support Or Maintenance Income Information If You Do Not Want Us To Consider It In Evaluating Your Application

Bank Branch | ☐ Checking & Savings ☐ Check ☐ Loan ☐ Savings

Nearest Relative Not At Your Present Address | Relationship

Relative's Address

Complete For Spouse If Joint Account Is Requested:

Spouse's Full Name (First, Initial, Last)

Date of Birth | Social Security Number

Former Address If Less Than 3 Yrs. At Present Address | How Long

Employer's Name (Give Firm's Full Name) | How Long

Employer's Address | Business Telephone

Position | Gross Salary (Monthly) $

Other Income Source(s) | Amount (Monthly) $

Former Employer Address | How Long

Position | Salary (Monthly) $

Bank Branch | ☐ Checking & Savings ☐ Check ☐ Loan ☐ Savings

Credit Cards (Include Loan or Finance Companies)

Firm Name	Location	Account No.	Exact Name In Which Account Is Carried

For Office Use Only

Credit Bureau Report In File Since _____ Last Checked _____

ICP 4300 Rev. 3-76

STORE COPY

1-Information about CHARACTER

2-Information about CAPACITY

3-Information about CAPITAL

4-Information about COLLATERAL

SUGGESTIONS FOR ROLE PLAYING THE INTERVIEW

1. For this "interview", the volunteer will pretend to be a salesperson for a small business. He/she receives a moderate income and is buying a home. There is a semi-completed application form included with these suggestions. This application form can indicate the direction for the interview. Questions can be asked about information not given on the application or to clarify information that is given.

2. When asking for a volunteer, explain to the group that this will serve as a simple example of interviewing a credit applicant. Be informal and at ease when asking for a volunteer. If no one volunteers, it is possible that someone is waiting to be chosen. A good prospect is the person who seems to be the most interested or the one who asks the most questions. (If you still do not have a volunteer, dispense with the role-playing suggestion. Simply, tell some of the questions asked during an interview.)

3. Take your places in front of the group; be comfortable. Sit in chairs facing each other but partially facing the group, too.

4. Use the partially completed application and conduct the "interview."

5. After the "interview", be sure to show appreciation to the volunteer for his contribution to the session.

6. Review some of the responses made, and indicate the effect of such responses on the probability of the applicant receiving credit. Ask the group how they felt about a) the interview b) the questions asked c) the responses given d) whether or not they feel the applicant should receive the credit.

Third National Bank of Virginia

INDIVIDUAL APPLICATION __ (COMPLETE SECTION A)
PURPOSE _____
UNSECURED __ SECURED __ (DESCRIBE BELOW) AMOUNT $_____ NO. OF MONTHS _____

AUTO __ REC. VEHICLE __ TRUCK __ MOTORCYCLE __ MOBILE HOME __
MAKE _____ MODEL _____ YEAR _____
AUTO. TRANS. __ POWER STEERING __ POWER BRAKES __
AIR COND. __ VINYL TOP __ NO. OF CYL. __
LIST PRICE $ _____ DOWN PAYMENT $ _____
TYPE INSURANCE _____ WAIVE __ YS: __
AGENT _____
ADDRESS _____

JOINT APPLICATION __ (COMPLETE SECTIONS A AND B)
YOU NEED ONLY TO COMPLETE SECTIONS DIFFERENT FROM A.

HOUSEHOLD GOODS __ (DESCRIBE) _____
REAL PROPERTY __ HOME IMPROVEMENT/REAL PROPERTY __
(DESCRIBE) _____
(LOCATION) _____
OTHER __ (DESCRIBE) _____

DOES ANYONE OTHER THAN APPLICANT OR CO APPLICANT HAVE ANY INTEREST IN THE SECURITY? YES __ NO __ RELATIONSHIP _____
NAME _____ ADDRESS _____
SELLER OF GOODS/SERVICES: REFERRED TO BANK BY SELLER YES __ NO __
NAME _____ ADDRESS _____

A. APPLICANT TITLE OPTIONAL MR. __ MRS. __ MS. _____ MISS _____

FULL NAME _____ CS
HOME ADDRESS _____
CITY _____ STATE _____ ZIP _____
HOW LONG | HOME PH. NO. | BUSINESS PH. NO.
PREVIOUS HOME ADDRESS IF AT PRESENT ADDRESS LESS THAN 2 YRS
NEAREST RELATIVE NOT LIVING WITH YOU | RELATIONSHIP
HOME ADDRESS CITY STATE ZIP
SOCIAL SECURITY NO. / / | TOTAL DEPENDENTS | AGE
OWN OR BUYING __ RENT __ OTHER __
LANDLORD OR MORTGAGEE
PURCHASE PRICE $ | MORTGAGE BALANCE $
PRESENT EMPLOYER
EMPLOYER ADDRESS
POSITION | YEARS THERE

B. JOINT APPLICANT (SPOUSE OR OTHER) TITLE OPTIONAL MR. _____ MRS. _____ MS. _____ MISS _____

FULL NAME | RELATIONSHIP | CS
HOME ADDRESS
CITY STATE ZIP
HOW LONG | HOME PH. NO. | BUSINESS PH. NO.
PREVIOUS HOME ADDRESS IF AT PRESENT ADDRESS LESS THAN 2 YRS
NEAREST RELATIVE NOT LIVING WITH YOU | RELATIONSHIP
HOME ADDRESS CITY STATE ZIP
SOCIAL SECURITY NO. / / | TOTAL DEPENDENTS | AGE
OWN OR BUYING RENT __ OTHER __
LANDLORD OR MORTGAGEE
PURCHASE PRICE $ | MORTGAGE BALANCE $
PRESENT EMPLOYER
EMPLOYER ADDRESS
POSITION | YEARS THERE

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IV
Activity 8 (b)

MONTHLY EXPENSES		MONTHLY INCOME	
MORTGAGE OR RENT	$	SALARY/WAGE/ COMMISSION	$
EST. LIVING EXPENSE	$	OTHER INCOME	$
DEBT OBLIGATIONS	$	(ALIMONY, CHILD SUPPORT, OR MAINTENANCE PAYMENTS NEED NOT BE REVEALED)	
		SOURCE	
TOTAL FIXED EXPENSES	$	TOTAL INCOME	$

BALANCE OF INCOME OVER EXPENSE $

PRESENT DEBT/CREDIT REFERENCES: INCLUDE BANK, FINANCE CO. LOANS, DEPT. STORES, ETC. ALSO LIST ALL NON-COURT ORDERED AND COURT ORDERED PYMTS. FOR ALIMONY AND/OR CHILD SUPPORT.

	ORIGINAL AMOUNT	MONTHLY PAYMENT	BALANCE	
				FC
				DSMCC
				BR

BANKAMERICARD ___ ACCT. NO.

MASTER CHARGE ___ ACCT. NO.

OTHER ___ ACCT. NO.

CUSTOM CREDIT OR OVERDRAFT PRIVILEGES

YOUR BANK NAME LOCATION

CHECKING ACCT. NO.

SAVINGS ACCT. NO. S

PREVIOUS LOANS WITH TYPE CR

DOES APPLICANT DESIRE :

BAC ___ CUSTOM CREDIT ___ FINANCIAL PROFILE ___ CKG. ___ CS

SAVINGS ___ DEBIT CKG./LOAN PYMT. ___ OTHER ___

MONTHLY EXPENSES		MONTHLY INCOME	
MORTGAGE OR RENT	$	SALARY/WAGE/ COMMISSION	$
EST. LIVING EXPENSE	$	OTHER INCOME	$
DEBT OBLIGATIONS	$	(ALIMONY, CHILD SUPPORT, OR MAINTENANCE PAYMENTS NEED NOT BE REVEALED)	
		SOURCE	
TOTAL FIXED EXPENSES	$	TOTAL INCOME	$

BALANCE OF INCOME OVER EXPENSE $

PRESENT DEBT/CREDIT REFERENCES: INCLUDE BANK, FINANCE CO. LOANS, DEPT. STORES, ETC. ALSO LIST ALL NON-COURT ORDERED AND COURT ORDERED PYMTS. FOR ALIMONY AND/OR CHILD SUPPORT.

	ORIGINAL AMOUNT	MONTHLY PAYMENT	BALANCE	
				FC
				DSMCC
				BR

BANKAMERICARD ___ ACCT. NO.

MASTER CHARGE ___ ACCT. NO.

OTHER ___ ACCT. NO.

CUSTOM CREDIT OR OVERDRAFT PRIVILEGES

YOUR BANK NAME LOCATION

CHECKING ACCT. NO.

SAVINGS ACCT. NO. S

PREVIOUS LOANS WITH TYPE CR

DOES JOINT APPLICANT DESIRE :

BAC ___ CUSTOM CREDIT ___ FINANCIAL PROFILE ___ CKG. ___ CS

SAVINGS ___ DEBIT CKG./LOAN PYMT. ___ OTHER ___

THE ABOVE STATEMENTS ARE SUBMITTED FOR THE PURPOSE OF OBTAINING CREDIT AND ARE CERTIFIED TO BE CORRECT. I (WE) AGREE THAT USUAL CREDIT INQUIRIES MAY BE MADE TO VERIFY STATEMENTS. I (WE) AGREE THAT THIS APPLICATION SHALL REMAIN THE PROPERTY OF THE BANK WHETHER THE LOAN IS GRANTED OR NOT. I (WE) ACKNOWLEDGE RECEIVING THE NOTICE REQUIRED UNDER THE FEDERAL EQUAL CREDIT OPPORTUNITY ACT.

SIGNATURE ___ DATE

APPLICANT

SIGNATURE ___ DATE

JOINT APPLICANT(S)

THE FEDERAL EQUAL CREDIT OPPORTUNITY ACT PROHIBITS CREDITORS FROM DISCRIMINATING AGAINST CREDIT APPLICANTS ON THE BASIS OF SEX OR MARITAL STATUS. THE FEDERAL AGENCY WHICH ADMINISTERS COMPLIANCE WITH THIS LAW CONCERNING THIS BANK IS THE COMPTROLLER OF THE CURRENCY, CONSUMER AFFAIRS DIVISION, WASHINGTON, D.C. 20219

V. KNOWING YOUR RIGHTS AND RESPONSIBILITIES CONCERNING CREDIT

MAJOR OBJECTIVE: TO SUMMARIZE VARIOUS CONSUMER RIGHTS AND RESPONSIBILITIES CONCERNING CREDIT.

SPECIFIC OBJECTIVES: LIST THE BASIC CONSUMER RIGHTS ABOUT CREDIT AND CITE EXAMPLES OF LEGISLATION AND AGENCIES WHICH HELP GUARANTEE EACH OF THOSE CONSUMER CREDIT RIGHTS.

IDENTIFY GENERAL CONSUMER CREDIT RESPONSIBILITIES AND DESCRIBE THE FUNDAMENTAL CONCEPTS BEHIND EACH.

FOUR MAJOR CREDIT RELATED LAWS

(As each relates to the four Consumer Credit Rights)

Consumer Credit Right-To be informed

Laws

Truth-In-Lending (Consumer Credit and Protection Act)	1-Contracts must include disclosure statements with itemized list of all charges. 2-True Annual Percentage Rate must be stated. 3-The first 75% of your take home pay is exempt from garnishment, and an employee cannot be fired the first time his wages are garnisheed. 4-Creditors can compute finance charges on basis of average daily balance, adjusted balance, previous balance or insist that the total amount is due in 25 days.
Fair Credit Reporting Act, 1972	1-Limits lost credit card liability to $50 per card. 2-If you are denied credit, you have a right to find out why.
Fair Credit Billing Act, 1975	1-Consumers should report billing errors. 2-Customers need not pay disputed amount during the time of the dispute. 3-Customers may withhold payments if merchandise is defective. 4-Creditor can give up to 5% discount to customers paying by cash.
Equal Credit Opportunity Act	1-Credit cannot be denied to a person because of sex or marital status. 2-Couples with joint bank accounts may request that information concerning these accounts be reported in each person's name so both will have a credit history.
Other	

FOUR MAJOR CREDIT RELATED LAWS

(As each relates to the four Consumer Credit Rights)

Consumer Credit Right-To choose

Laws	
Truth-In-Lending (Consumer Credit and Protection Act)	1-Opportunity to compare rates at different credit granting institutions exists.
Fair Credit Reporting Act, 1972	1-Electing to notify creditor immediately about lost credit cards, thereby having no liability whatsoever, is possible.
Fair Credit Billing Act, 1975	1-To choose not to pay the amount in question during the time of the dispute, is a right.
Equal Credit Opportunity Act	1-Creditor must not discriminate against sex or marital status of credit applicant.
Other	

FOUR MAJOR CREDIT RELATED LAWS

(As each relates to the four Consumer Credit Rights)

Consumer Credit Right-To safety

Laws

Truth-In-Lending (Consumer Credit and Protection Act)	1-If you agree that your home will serve as security for a loan, you may cancel the agreement, in writing, within three business days following the agreement.
Fair Credit Reporting Act, 1972	1-Lost credit card liability is limited to $50/card. 2-Credit customers may have their credit report withheld from anyone who has no right to the information, and adverse information may not be reported after 7 years.
Fair Credit Billing Act, 1975	1-You are protected by law from harassment while any dispute is underway.
Equal Credit Opportunity Act	1-You are assured by law that you can have your individual credit history, regardless of your marital status, which can be separate from your spouse's(if any).
Other	1-Unsolicited Credit Card Act-Persons receiving unsolicited credit cards will not be held liable for illegal use of them. 2-FTC Ruling-Both lender and seller are responsible for customer satisfaction.

FOUR MAJOR CREDIT RELATED LAWS

(As each relates to the four Consumer Credit Rights)

Consumer Credit Right-To be heard and seek redress

Laws

Truth-In-Lending (Consumer Credit and Protection Act)	1-Buyers may sue up to $1,000 for damages plus attorney's fees on grounds of false or incomplete credit information. 2-Complaints are filed with the Federal Reserve Board.
Fair Credit Reporting Act, 1972	1-Consumer may submit a 100 word complaint and have it included as a permanent part of the credit file. 2-Customer may sue a reporting agency for damages. 3-Report violations to FTC.
Fair Credit Billing Act, 1975	1-Credit customers may withhold payment and file legal claim against issuer of credit card if merchandise is defective. 2-File complaints with FTC.
Equal Credit Opportunity Act	1-If credit applicant is discriminated against, complaints may be taken first to creditor, then to local or state authorities or Federal Reserve Board or FTC.
Other	FTC Rulings 1-Credit customers may file complaints for defective merchandise or services(if seller arranged the contract). 2-You must be informed of the sale of your repossessed goods.

OTHER SOURCES OF CONSUMER CREDIT REDRESS

Source	Type of Aid
Legal Aid Society	Aids people with debt problems
Consumer Credit Counseling Service	Non-profit debt and financial management counseling
Credit Bureau	Collects information on consumer's credit behavior and sells information to creditors
Better Business Bureau	Deals with misrepresentation and fraudulent advertising
State Consumer Protection Agency	Investigates consumer complaints, deals with disputes, recommends legislation, and educates consumers to avoid fraud
Other state agencies	Enforce usury and small loan laws
Local City or County Protection Agencies	Provide consumer protection, inform, educate, and take part in supporting consumer legislation and policing consumer practices at the local level

WORKSHEET FOR COMPUTING THE TRUE ANNUAL PERCENTAGE RATE

The true Annual Percentage Rate (true annual interest charged) tells the true, real cost of credit in percentage terms.

Determining the dollar amount (difference between the cash price paid and the credit price). Example - If the price of an item is $250.00, and the store charges you a total amount of $300.00 because you use credit to pay for the item, the dollar cost of the credit is $50.00.

$$\begin{array}{r} \$300.00 \\ -\ 250.00 \\ \hline \$\ 50.00 \end{array} \text{ dollar cost}$$

Determining the true APR. Example - If you need to borrow $200.00, and you are not going to pay a down-payment, your payments might be $18.00 per month if you plan to repay it in one year's time. The true APR would be 14.8%. The following formula is used for this calculation:

$$APR = \frac{2YF}{D(T+1)}$$

APR = true Annual Percentage Rate
2 = a constant
Y = number of payments per Year
F = total Finance charges or dollar cost
D = net amount financed (Difference between total amount and down-payment)
T = Total number of payments

For our example, Y = 12 payments per year (notice this is also the T)

F = $16.00 $\quad \begin{array}{r} \$\ 18.00 \\ \times\ 12 \\ \hline \$216.00 \end{array}$ and $\quad \begin{array}{r} \$216.00 \\ -\ 200.00 \\ \hline \$\ 16.00 \end{array}$

D = $200.00 financed
T = 12 payments

Therefore,

$$APR = \frac{2\ (12)\ (16)}{200\ (12+1)} = \frac{384}{2600} = .148$$ (move decimal two places to right)

APR = 14.8%

PROGRESSION OF CONSUMER CREDIT SOURCES
FROM LOWEST TO HIGHEST TRUE APR

Source	Annual Percentage Rate
Insurance companies	5-8%
Savings & loan associations	7-8%
Credit unions	9-12%
Commercial banks	10-14%
Consumer finance company	14-36%
Sales finance company	16-24%
Department stores	18%
Credit cards	18%
Bank overdraft loans	18-24%
Pawn brokers	30-36%

Note
Third National Bank of Virginia
Installment Loan and Disclosure

Note No._____ _____, Virginia _____, 19_____

_____
NAME OR NAMES
_____ } "Borrower"
ADDRESS

FOR VALUE RECEIVED, Borrower (jointly and severally if more than one, hereinafter called "Borrower") hereby promises to pay the Total of Payments set forth below to the order of ("Bank") at any of its offices in the State of Virginia, in_____monthly instalments, beginning_____, each of said instalments being for $_____, except the last for $_____. All subsequent instalments shall be paid on the same day of each succeeding month until paid in full. If the last payment is more than twice a regular payment, it is a Balloon Payment. Bank is not obligated to refinance a Balloon Payment if not paid when due.

Personal Insurance is not required and is not provided unless Borrower signs below and the insurance is issued by the insurer. Only the persons signing below will be covered.

☐ Credit Life for term of loan. Premium $ _____

_____ _____
SIGNED DATE

_____ _____
SIGNED DATE

☐ Accident and Health for term of loan. Premium $ _____

☐ Accident Death and Dismemberment for _____ months Premium $ _____

_____ _____
SIGNED DATE

1.	Net Loan Proceeds		$_____
2.	Charges Related to Loan		
	Personal Insurance	$_____	
	Property Insurance	$_____	
	Filing Costs	$_____	
	Other	$_____	$_____
3.	Amount Financed (1 + 2)		$_____
4.	FINANCE CHARGE		
	Interest	$_____	
	Service Charge	$_____	$_____
5.	Total of Payments (3 + 4)		$_____
6.	ANNUAL PERCENTAGE RATE		_____%

LATE CHARGES AN) ACCELERATION: In event of nonpayment of any instalment when due continuing for 10 days or more, a late charge of up to 5% of the amount of each late payment may be imposed. Further, in such event the Bank, at its option, may declare the entire indebtedness due and payable, but the balance owing shall be computed as if the Borrower had made a voluntary prepayment and obtained an interest rebate as set forth below, and thereafter such accelerated balance shall bear interest at the Annual Percentage Rate shown above.

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V
Activity 8 (a)

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PREPAYMENT: Except as stated below, in event of prepayment, Borrower will receive a rebate of the amount of the unearned interest portion of the Finance Charge, computed under the Rule of 78's. Notwithstanding the preceding sentence, if the Bank has not earned a minimum of $25.00 in Finance Charge at the time of prepayment, then the Bank shall withhold from the rebate otherwise payable an amount equal to the extent such minimum was not earned. Further, in the event of prepayment from proceeds of credit life insurance, there will be no rebate to Borrower.

SECURITY: Borrower, any guarantor, surety, indorser or other party hereto (hereinafter collectively referred to as "Party") agree that Bank shall have the right to offset the amount owed by a Party hereunder to the holder hereof against any account, checking, savings or otherwise, which a Party may have with the holder. Further, this loan ☐ is ☐ is not secured. If secured, Bank has been granted a security interest in the property described below ("Collateral"), together with all accessions thereof and proceeds thereof. To create the security interest, if any, Borrower ☐ has executed or caused to be executed a security agreement granting Bank a security interest in the Collateral and/or ☐ hereby grants a security interest in, and has caused, and/or hereafter will cause, the Collateral (including any certificates evidencing ownership) to be deposited with, assigned and pledged to Bank. The Collateral is described as follows (if any):_____

_____

_____

_____.

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PROPERTY INSURANCE: ☐ is ☐ is not required. If required, Borrower may choose the person through whom any property insurance in connection with this loan is obtained. Such insurance ☐ is ☐ is not obtainable through the Bank. If obtained through the Bank, the cost will be $_____ for the following coverage and term _____

_____.

DEFAULT: Upon default as set forth on the reverse side hereof, Bank may, at its option, without notice or demand, declare all obligations evidenced hereby immediately due and payable, together with an attorney's fee of 20% of the amount then owing and unpaid by Borrower, if services of an attorney are employed to effect collection, and other expenses of collection and enforcement.

REFERENCE IS MADE SPECIFICALLY TO THE PROVISIONS APPEARING ON THE REVERSE SIDE HEREOF, ALL OF WHICH ARE EXPRESSLY MADE PARTS, TERMS AND CONDITIONS HEREOF.

Borrower hereby acknowledges that he has received a completely filled-in copy of this Note prior to consummation of this loan.

WITNESS the following signatures and seals as of the date first above written.

_____(SEAL)

_____(SEAL)

923-83-76

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Activity 8 (cont.)

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For further information about the Title I Consumer Education and Financial Management Project, please contact:

Dr. Glen Mitchell, Project Director
202 Wallace Annex
Virginia Polytechnic Institute and State University
Blacksburg, VA 24061

Other materials in production for this project include:

Pamphlets:

"Fraud and the Consumer"

"How to Buy a Used Car"

"Contracts and the Consumer"

"Warranties and the Consumer"

"Credit and the Consumer"

Educational Modules:

"Avoiding Consumer Frauds and Misrepresentations"

"Making and Using a Financial Plan"

Manual:

"A Financial Counseling Manual"